**The Economist**
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## Politics this week

Jan 13th 2011 | from PRINT EDITION


A 22-year-old man opened fireat a political event outside a supermarket in **Tucson**, killing six people, including a federal judge and a nine-year-old girl, and wounding 13 others. Jared Loughner's alleged main target was Gabrielle Giffords, the local Democratic congresswoman, whom he shot in the head. The shooting sparked a fierce debate in America about whether the heated political rhetoric of recent years was to blame for the incident. But Mr Loughner, described as mentally unstable, seemed to have no obvious political motive. In a speech in Tucson at a memorial service for the victims, Barack Obama called for "more civility in our public discourse". See article

**Tom DeLay** was sentenced to three years in prison on money-laundering charges. Mr DeLay is a former Republican majority leader in the House.

**Laying down its arms**

**ETA**, the Basque separatist terror group, put an end to weeks of speculation by declaring that a ceasefire it had announced last September was "permanent" and "verifiable by the international community". The Spanish government said this was "not news". See article

A Russian report into the air crash last year that killed **Poland's** president, Lech Kaczynski, and 95 others blamed the plane's Polish pilots. It said that they had come under "psychological pressure" from Mr Kaczynski and others to land in heavy fog. Poland's interior minister accepted the report, but said Russian officials had also made mistakes.

**Britain's** parliamentary-expenses scandal, which broke in 2009, saw its first convictions. David Chaytor, a former Labour Party MP, was sentenced to 19 months in prison for making false claims. And Eric Illsley, a sitting Labour MP, resigned his seat after pleading guilty to three charges of false accounting. See article

**Belgium's** king took the unorthodox step of ordering the head of the country's caretaker government to make budget cuts, as fears rose over high public debt. Belgium has been without a government since June; recent attempts to forge a coalition between its fractious parties have fallen flat.

**Happiness at the ballot box**


Turnout in a referendum for the people of **South Sudan** to vote for secession from the rest of Sudan was said to have passed the required threshold of 60% for a yes vote to be valid; the last day of voting is scheduled for January 15th. Though dozens were killed in border skirmishes, voting was generally peaceful. An overwhelming endorsement was universally predicted. See article

At least two dozen **Tunisians**, mainly young civilian men, were killed in protests against unemployment and high-level corruption that continued in at least a dozen towns across Tunisia. President Zine el-Abidine Ben Ali, whom the protesters want to oust, sacked his interior minister, closed schools and universities and enforced a curfew in Tunis, the capital. See article

Tension rose in **East Jerusalem**, which Palestinians view as their future capital, when bulldozers began demolishing parts of the old Shepherd Hotel in a district inhabited mainly by Arabs, to make way for buildings for Jews. See article

**Lebanon's** shaky coalition government collapsed after Hizbullah, a Shia party-cum-militia, withdrew its support, allegedly because the prime minister, Saad Hariri, had refused to convene an emergency session to take a stance on the UN tribunal investigating the assassination of his father, Rafik Hariri, in 2005. It seems likely that Hizbullah will be blamed for the killing. See article

Violence persisted in **Cote d'Ivoire**. Olusegun Obasanjo, a former president of Nigeria, joined an array of leading Africans seeking to persuade Laurent Gbagbo to step down after losing November's presidential election. Friends of Alassane Ouattara, the thwarted winner, hinted that he might accept a unity government including some senior Gbagbo people, provided that Mr Ouattara becomes president.

**Alternative vote**

In a leaked report reviewing **Haiti's** presidential election, the Organisation of American States found that Michel Martelly, a popular musician, had obtained more votes than Jude Celestin, the candidate of the outgoing government who was placed second in the result declared by the electoral authority. The report said that Mr Martelly, not Mr Celestin, should go through to a run-off with Mirlande Manigat, a former first lady.

Violence related to drug-trafficking in **Mexico** killed 15,273 people in 2010, the government said, up from 9,616 the previous year. See article

**Venezuela's** national assembly voted to scrap a law approved last month that would have increased government control over universities. The country's president, Hugo Chavez, who inspired the law, said that he would veto it after it attracted protests from students and others.

Chile became the seventh **South American** country in the past month to grant diplomatic recognition to an independent state of **Palestine** based on Israel's pre-1967 boundaries.

**A new weapon on display**

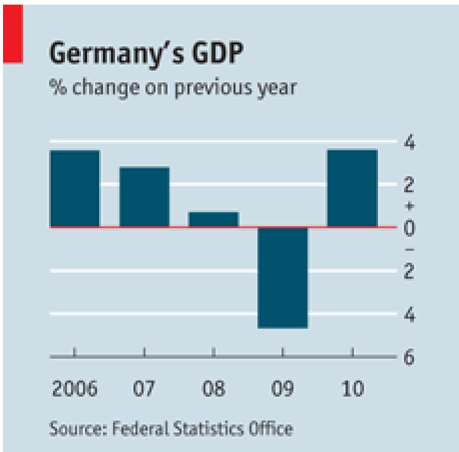
Robert Gates, America's defence secretary, visited **China**. The trip had been delayed by nearly a year because of Chinese pique at an American arms sale to Taiwan. During his visit China's army conducted an attention-grabbing test-flight of its first stealth fighter; Mr Gates was assured that the timing was coincidental. See article

**North Korean** sentries pursued a group of defectors fleeing across the Chinese border and shot dead five of them, according to the *Chosun Ilbo*, a South Korean newspaper. China issued no immediate complaint. Across its other border North Korea reconnected a Red Cross-operated hotline with the South, the first direct line of communication the two sides have had since the North shelled a South Korean island in November.

There were a number of devastating **floods** worldwide. In Brazil at least 335 people were killed by flooding and mudslides near Rio de Janeiro; 40 people died and 1m were affected by rains in the Philippines; more than 2m people were caught up in a deluge in northern Colombia; a heavy monsoon displaced 200,000 people in Sri Lanka; and Brisbane, the capital of Queensland and Australia's third-largest city, was left deserted in the face of raging floodwaters. At least a dozen people died there. See article

# Business this week

Jan 13th 2011 | from PRINT EDITION




The first big government-bond auctions of the year from "periphery" countries in the euro zone were watched closely by the markets. **Portugal** paid yields of 6.7% on its ten-year bond. This was below both the 6.8% it paid for a similar maturity last November, and the 7% mark at which Portuguese officials admit borrowing costs would become unbearable. Before the auction the European Central Bank intervened to buy Portuguese and other euro-area bonds. With investors betting that Portugal would still need a bail-out, Angela Merkel asserted that Germany would "support whatever is needed to support the euro". See article

After a deep recession in 2009 **Germany's** economy grew by 3.6% last year, the fastest pace of growth since 1981. Growth is expected to be slower this year and next because of the crisis in the euro area, Germany's main export market.

America's Agriculture Department reduced its estimate of the **stock of grains** worldwide and raised its forecast for demand, causing a further jump in the already high price of corn (maize) and soyabeans. Last year's corn harvest in America, the world's biggest producer, was lower than expected, but demand has increased as more corn is used for ethanol fuel. China buys around a third of America's soyabean crop to use mostly as animal feed.

Amid more signs of quickening inflation, **China** allowed the yuan to appreciate slightly against the dollar by resetting the reference rate. Timothy Geithner, America's treasury secretary, called on China to do more to strengthen its currency. Hu Jintao, China's president, visits Washington, DC, next week.

**Diamond in the rough**

Bob Diamond, the new chief executive of Barclays, told a British parliamentary committee that the "period of remorse and apology" over **bankers' bonuses** was over. Mr Diamond, whose remuneration package this year is reported to be worth around pound8m ($12.6m), defended the payment of large bonuses as essential to retaining talent, but also conceded that "no bank should be a burden to taxpayers." See article

**Credit Suisse** unveiled changes to its system of awarding bonuses, moving a larger proportion to deferred payments and its shares rather than cash. The Swiss bank said it was committed to "performance-oriented compensation policies".

Responding to criticism last year that it had not acted in the best interests of its clients before the financial crisis, **Goldman Sachs** produced a report into its business and the steps it would take to become more open. Among the changes, Goldman has split its trading business in two (so it now has four reporting divisions rather than three), which creates a new investment and lending group that will spell out the profits it has made with its own money. See article

**Duke Energy** agreed to buy **Progress Energy** in a deal worth $26 billion, including debt. Both companies are based in North Carolina, with customers in several states, and want to expand their business in nuclear power.

**Lessons learned?**

A presidential commission released its final report into the explosion at a **BP oil well** in the Gulf of Mexico last April that killed 11 men and caused the biggest-ever civilian maritime oil spill. The commission found fault with BP and its partners: Halliburton, which supplied cement to seal the well, and Transocean, owner of the rig. It also called for "fundamental reform" of the regulatory system that oversees the oil industry and for an independent safety agency for offshore oil drilling. Some of the recommendations will need to be approved by Congress, where Republicans hold a majority in the House. See article


**Airbus** sealed an agreement with **IndiGo**, a rapidly expanding budget airline in India, to sell it 180 A320 aircraft, 150 of which will be the A320 NEO, a more fuel-efficient model that Airbus will start delivering in 2016. The order is worth $15.6 billion. The European aircraft-maker claimed it was the largest single number of jet aircraft ordered by an airline in commercial-aviation history.

**Verizon Wireless** announced that it would begin providing an **iPhone** service in the United States from next month. AT&T has been the sole carrier for the iPhone in America since the introduction of the device in 2007. Verizon's model is based on its CDMA technology. The AT&T iPhone uses the GSM network, which is more available worldwide.

**Advanced Micro Devices** said Dirk Meyer was resigning as chief executive, with immediate effect, by mutual agreement with the board of directors. His resignation surprised investors, though under Mr Meyer, AMD, the world's second-biggest supplier of semiconductors for PCs, made a strategic decision not to enter the market for chips for mobile equipment, other than netbooks. Sales of computer tablets, such as the iPad, are denting the market for PCs.

In another sign of the transition under way at big technology companies, it emerged that the head of **Microsoft's** server and tools division will step down in the summer. Microsoft is redoubling its efforts in cloud computing, whereby computers store applications and information remotely on the internet.

**Losing friends**

**MySpace** released details of its restructuring, which will eliminate 500 jobs, or half its worldwide workforce. MySpace was the most popular social-networking site in America as recently as 2006, but it has since lost advertising revenues and users to Facebook and other upstarts. News Corporation, which owns MySpace, is said to be seeking a buyer for the business.

**Terra Firma Capital Partners** launched an appeal against a court verdict last November that absolved **Citigroup** of giving fraudulent advice to the private-equity firm about its takeover of **EMI**. Guy Hands, Terra Firma's boss, had alleged that one of the bank's senior managers misled him into thinking there was a rival bid on the table for the struggling music group. The appeal will concentrate on technical aspects of the case.

The **unemployment rate** in America fell to 9.4% in December, the lowest since May 2009. But the number of new jobs created remained small; employers added 103,000 workers to the payrolls.

Speculation rumbled on about an alleged leak of company secrets at **Renault** related to its electric-car technology. Accusations that China was somehow involved were "baseless and irresponsible", according to a spokesman for China's foreign ministry. The French carmaker kept mum.

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The Tucson shootings

# The blame game

Jan 13th 2011 | from PRINT EDITION

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**Politer politics would help America in many ways; but it needs sensible gun laws much more**


SARAH PALIN once urged her supporters not to retreat but to reload. In the run-up to last year's mid-terms her website carried a map of vulnerable Democrat-held seats, each marked with the cross-hairs of a gun-sight. Sharron Angle, a Republican candidate in that election, once said that the federal government needed "second-amendment remedies"-the second being the one about the right to bear arms. Right-wing radio and television hosts routinely indulge in the language of armed resistance to the tyranny that resides in Washington, DC, as though Barack Obama were a reincarnation of the hated King George III and they were the heroes of the revolution.

None of this is useful or clever-and it is no less awful because the American left is also guilty of crass hyperbole. But it is a big (and so far unjustified) leap to blame the woeful state of American political discourse for the shooting of Gabrielle Giffords, a congresswoman, and the killing of six people in Tucson, Arizona, on January 8th (see article). Worse, by focusing on this issue, America is ignoring the real culprit: its gun laws.

It is clearly true that American politics have got a lot nastier in recent years. Politicians and their acolytes no longer treat opponents as decent and honourable, if sadly mistaken, public servants. Liberals blame talk radio and Fox News for this, but leftish websites have proved themselves more than capable of dishing out abuse, sometimes laced with violent imagery, to Mrs Palin, bankers and George Bush.

This development is to be deplored (though pious Britons might also note that their politicians cheerfully discussed "decapitation strategies" at the last election). Such talk certainly makes it harder for America's two political parties to co-operate in tackling urgent questions such as their nation's gargantuan debt, or its slide in the world education rankings. And, in the country with the developed world's highest murder rate and easiest access to guns, violent political rhetoric that paints government as an enemy to be fought is troubling.

**An uptick in death threats**

The causal relationship between vicious talk and violent action is far less certain. Since the 1960s political violence in America has been mercifully rare. The last killing of a member of Congress came in 1978, and that was in Guyana. The attempted assassination of Ronald Reagan was 30 years ago. Since then only the Oklahoma City bombing, which killed 168 in a federal government building, has spilt blood on America's political scene, though the election of Barack Obama has prompted death threats from the sort of person who does not believe that a black man is fit to be president, and the contested passage of health-care reform seems to have prompted an increase in death threats against representatives who voted for it.

Whether Jared Loughner was part of this trend is arguable. He was evidently politicised: he raved on the internet about the currency and the government. He had met Ms Giffords before and been offended by her failure to answer a nonsensical question he had put to her. The FBI found a note in his home about his "assassination", saying "I planned ahead". But unlike the killer of Salman Taseer, who said after he murdered the Pakistani politician last week that he was prompted by Mr Taseer's opposition to the blasphemy law, Mr Loughner has not explained himself; and his decision to take the fifth amendment in court this week suggests he may stay silent.

Mr Loughner may be politically motivated, but he is also clearly insane-a textbook case of paranoid schizophrenia in the view of a psychologist, and one who had already attracted police attention. He was ejected from an adult mathematics class because he had a habit of yelling that the class was unconstitutional and thought the government was trying to control his grammar. The indiscriminate carnage in Tucson looks more like the killings by a deranged student at Virginia Tech in 2007, or the schoolroom atrocity at Columbine in 1999, than the assassinations of the Kennedys or Martin Luther King.

And even if intemperate political language did to some degree help stew Mr Loughner's brain-along with violent video games, Goth music and marijuana-there is nothing to be done about it. Rambunctious debate is central to America's democracy. The first amendment protects free speech even more firmly than the second protects guns-the real villain of the piece, besides the killer himself.

**The right target, ever further away**

Opportunists who seek to gain political advantage by blaming the shootings on words would do America better service if they focused on bullets. In no other decent country could any civilian, let alone a deranged one, legally get his hands on a Glock semi-automatic. Even in America, the extended 31-shot magazine that Mr Loughner used was banned until 2004. As the Brady Centre, established after the Reagan shooting to commemorate one of its victims, has noted, more Americans were killed by guns in the 18 years between 1979 and 1997 than died in all of America's foreign wars since its independence. Around 30,000 people a year are killed by one of the almost 300m guns in America-almost one for every citizen. Those deaths are not just murders and suicides: some are accidents, often involving children.

The tragedy is that gun control is moving in the wrong direction. The Clinton-era ban on assault weapons expired in 2004 and, to his discredit, Mr Obama has done nothing to try to revive it. In 2008 the Supreme Court struck down Washington, DC's ban on handguns, and in 2010 Chicago's went the same way; others are bound to follow. In state after state the direction of legislation is to remove restrictions on gun use (those footling bans on bringing weapons into classrooms or churches or bars), rather than to enhance them.

It is fanciful to imagine that guns will ever disappear from America; they are too deeply embedded in its founding myths and its culture. But that does not mean that more effective checks on the mentally unstable are impossible, or that restrictions on the killing power of what can be sold are doomed to failure. Neither of these will happen, though, unless the blame is directed to where it belongs.

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The euro area

# Time for Plan B

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**The euro area's bail-out strategy is not working. It is time for insolvent countries to restructure their debts**


FOR a few weeks over the Christmas holidays, Europeans put their sovereign-debt crisis on hold. Now they are facing grim reality once more. Bond yields are spiking in an ever broader group of countries, just as the euro zone's governments need to raise vast sums from the markets. On January 12th Portugal was forced to pay 6.7% for ten-year money-better than feared but a price it cannot afford for long. Yields for Belgian debt have jumped, as investors fret about its load of debt and lack of leadership. Spain is hanging on.

This mess leads to a depressing conclusion: Europe's bail-out strategy, designed to calm financial markets and place a firewall between the euro zone's periphery and its centre, is failing. Investors are becoming more, not less, nervous, and the crisis is spreading. Plan A, based on postponing the restructuring of Europe's struggling countries, was worth trying: it has bought some time. But it is no longer working. Restructuring now is more clearly affordable than it was last year. It is also surely cheaper for everybody than it will be in a few years' time. Hence the need for Plan B.

The initial response, forged in the rescue of Greece in May 2010, has been undone by its own contradiction. Europe's politicians have created a system for making loans to prevent illiquid governments from defaulting in the short term, while simultaneously making clear (at Germany's insistence) that in the medium term insolvent countries should have their debts restructured. Unsure about who will eventually be deemed insolvent, investors are nervous-and costs have risen.

The least-bad way to deal with this contradiction is to restructure the debt of plainly insolvent countries now. Based on this newspaper's calculations (see article), that group should start with Greece and probably also include Portugal and Ireland. Spain has deep problems, but even with a big bank bail-out it should be able to keep its public debt at a sustainable level (see article). Italy and Belgium have high debt levels but more ample private savings, and their underlying budgets are closer to surplus. There is, thus, a reasonable chance that, handled correctly, euro-zone sovereign defaults could be limited to three small, peripheral economies.

**The perils of procrastination**

This newspaper does not advocate the first rich-country sovereign defaults in half a century lightly. But the logic for taking action sooner rather than later is powerful. First, the only plausible long-term alternative to debt restructuring-permanent fiscal transfer from Europe's richer core (read Germany)-seems to be a political non-starter. Some of Europe's politicians favour closer fiscal union, including issuing euro bonds, but they are unlikely to accept budget transfers big enough to underwrite the peripheral economies' entire debt stock.

Second, the dangers from debt restructuring have diminished even as the costs of delay are rising. Eight months ago, when euro-zone governments and the IMF joined forces to rescue Greece, their determination to avoid immediate restructuring made sense. There were reasonable fears that default could plunge Greece into chaos, precipitate bond crises in the euro zone and spark a European banking catastrophe.

Explore our

But the European economy, as a whole, is now in better shape. Banks have had time to build up more capital-and palm off some of their holdings of dodgy sovereign bonds to the European Central Bank. Greece and other peripherals have shown their mettle with austerity plans. Europe's officials have created mechanisms to stump up rescue money quickly. And lawyers have been thinking about managing an "orderly" default. A sovereign restructuring could still spook financial markets-fear that it would spread panic makes Europe's politicians shy away from it-but if handled correctly, it should not spawn Lehman-like chaos.

At the same time the costs of buying time with loans have become painfully clear. The burden on the countries that have been rescued is enormous. Despite the toughest fiscal adjustment by any rich country since 1945, Greece's debt burden will, on plausible assumptions, peak at 165% of GDP by 2014. The Irish will toil for years to service rescue loans that, at Europe's insistence, pay off the bondholders of its defunct banks. At some point it will become politically impossible to demand more austerity to pay off foreigners.

And the longer a restructuring is put off, the more painful it will eventually be, both for any remaining bondholders and for taxpayers in the euro zone's core. The rescues of Greece and Ireland have increased their overall debts while their private debts fall, so that a growing share will be owed to European governments. That means that the write-downs in any future restructuring will be bigger. By 2015, for instance, Greece could not reduce its debt to a sustainable level even if it wiped out the remaining private bondholders.

**How to change course**

A cost-benefit analysis, in short, argues in favour of carrying out an orderly restructuring now. The debt reduction should be big enough to put afflicted economies on a sustainable path. Greece may have to halve its debt burden. Ireland's may need to be cut by up to a third, with some of this coming from writing down bank rather than sovereign debt.

All creditors, including governments and the European Central Bank, will have to chip in. New rescue money will also be needed: to fund defaulting countries' budget deficits; to help recapitalise these countries' local banks (which will suffer losses on their holdings of government bonds); and, if necessary, to recapitalise any hard-hit banks in Europe's core economies. The ECB and others should stand ready to defend Belgium, Italy and Spain if need be.

If Europe's leaders stick to plan A, the debt crisis will continue to deepen. If they get on with restructurings that are eventually inevitable, they have a fighting chance of putting the crisis behind them. Plan B will require deft technical management and political courage. Thanks to its emerging-market expertise, the IMF has some of the former. It is up to Europe's politicians to find the latter.

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Bank bonuses in Britain

# Do the maths

Jan 13th 2011 | from PRINT EDITION

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**Britain's approach to bonuses should be ruled by its head, not its heart**


IT HAS become a seasonal blood sport. Around this time for three years now, Britons have got spitting mad about financiers' bonuses. This season promises to be as gory as ever. An expected pound7 billion ($11 billion) bonus round in the City of London will be paid just as a wave of public-spending cuts are about to bite.

The spectacle of binmen being sacked just as traders toast their own brilliance over pound10,000 bottles of wine won't be pretty. But before politicians unleash rhetorical hell on the financial sector and devise new taxes, they ought to think twice. That isn't because bankers have a God-given right to live off the public purse, but because allowing banks rather than politicians to determine bankers' pay is in Britain's interest.

**Clegg and the golden egg**

The controversy is not surprising. Britain had two of the world's largest bail-outs, of Lloyds Group and Royal Bank of Scotland (RBS). Now there is a coalition government whose priority is austerity. Its beleaguered junior partners, the Liberal Democrats led by Nick Clegg, entered the pact expecting tough action against banks and are keen to make a stand. Politicians of all stripes like to argue, without much evidence, that banks are starving industry of credit and throttling the recovery. Complicating things still further, Britain hosts a global financial centre, which pays lots of taxes and provides jobs. And the state now owns pound57 billion of shares in RBS and Lloyds, which if sold would pay off 7% of the national debt.

The right approach towards bonuses has three struts. First, the value of the state-owned stakes should be maximised. That means paying for good managers to clean up these firms: the boss of RBS, though pilloried for his pay packet, is making a decent fist of things. About a third of RBS's value sits in its investment bank. To maintain its worth it must compete to retain staff against foreign banks that are not subject to pay limits. A ban on high pay would thus leave taxpayers poorer.

Second, it makes no sense to clobber global firms active in the City. The bonus tax levied last year by the previous government was understandable, given public outrage. But it should be a one-off. Much of it was raised from foreign firms which British taxpayers would never have to bail out. Furthermore, two well-run "British" banks, HSBC and Standard Chartered, are mainly international outfits which didn't get into trouble and do not rely on risky borrowing. The City could not relocate from London overnight. But over, say, a decade, there could be a drift away that would end up reducing tax receipts. If Britain needs to rebalance its economy, it should do so by expanding other industries, not killing off global finance.

Third, the real problem with banks and compensation needs to be dealt with. This is not that some people get paid lots: Britain, after all, tolerates mediocre millionaires on its football pitches. It is that bonuses are paid from profits boosted by subsidies. Banks capture these by being able to borrow cheaply, because of their implicit state guarantee. Here, regulators have made progress. A big chunk of bonuses will be deferred, so that if firms fail bankers will lose out. Banks are taking less risk and are holding bigger reserves. There are proposals to push losses onto their creditors, although until these look sturdier banks should continue to be charged a levy on their debts and prodded to reduce them further.

These points are difficult for politicians to make. But the government should try harder. So should the banks' bosses, who must leave their bunkers and state their case to the public. They will be roasted alive, of course; but in the new, post-crisis world of finance, that is partly what they get paid for.



Car industry

# Danger ahead

Jan 13th 2011 | from PRINT EDITION

**The car industry's crisis is over. Its long-term problems are not**


THE mood at the Detroit motor show this year was very different from the dark days of 2009. Then, bosses of American car companies wondered if their firms would survive. Now, thanks to $60 billion of federal finance and the cold shower of bankruptcy to wash away their debts, General Motors (GM) and Chrysler are still alive, while Ford's canny financial manoeuvring before the crisis allowed it to clean up its act and roar back to record profits.

Yet the industry's problems are not behind it. The American rescues averted catastrophe, but they-along with continued European subsidies-have exacerbated the overcapacity that has dogged the sector for years. The car industry can produce 94m cars a year, against global demand of 64m. Unless that changes, it will never return to health.

The top-line numbers coming out of America are remarkably good (see article). Sales may reach nearly 14m this year after plunging to just over 10m two years ago. Yet America's car companies are still under pressure. GM is making money but Chrysler, although it has closed factories and slashed costs, is struggling. In Europe, meanwhile, demand is still falling and there is reckoned to be about 30% too much capacity. Nobody is making much money there. Fiat and the European arms of GM and Ford are losing plenty.

During the economic crisis, government scrappage schemes encouraged people to buy big expensive models on which carmakers enjoy fat margins; but, now that those schemes have gone, the shift towards smaller, more efficient cars has resumed. It's happening because of high fuel costs, environmental concerns and ageing populations: older people, with no children and less testosterone, shun big cars and powerful engines. For carmakers, this shift is a problem, because small cars are less profitable than large ones. The car giants can increase margins by, for instance, extending lean manufacturing processes to distribution and retailing so cars are made to order rather than stocked expensively along the distribution chain. Such fixes can alleviate manufacturers' problems; but in an overcrowded business, they cannot solve them.

**A hard road**

Developments in China are likely to make things worse still for rich-world companies. China too has a surplus of car manufacturers, excess capacity and a problem with demand. Annual sales growth is forecast to fall from 30% to around 10% from this year as other parts of the country follow Beijing's move to restrict the number of cars in the city. That should squeeze the domestic market further, hurt Western firms selling into China (including the luxury brands enjoying a boom, see article) and encourage Chinese manufacturers to look abroad. Some are already selling cars successfully around Asia and the Middle East. One of them, Geely, has bought Sweden's Volvo, a brand with a small but faithful customer base in America. Provided it manages its acquisition well, Geely could use the Volvo brand to grow in America. The Chinese government would like to see the joint ventures it has set up with the likes of GM and Volkswagen (VW) start exporting. Eventually, Chinese cars will flood into American and European markets.

Given their current problems and their future prospects, European companies need to cut capacity and boost productivity. But tough labour laws and government stakes in some firms-a German *Land*, Lower Saxony, owns 20% of VW, for instance, and the French government owns 15% of Renault-discourage them from shedding workers. As a result, despite the biggest crisis in living memory in the industry, firms are failing to rationalise.

That needs to change. The brutal downsizing America's car companies have undergone means that they have a chance of flourishing in the lean times ahead. Unless the weaker European firms take similar steps, they don't.

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Chinese foreign policy

# Discord

Jan 13th 2011 | from PRINT EDITION

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**China's tough new attitude is both dangerous and counterproductive**


WHAT has happened to the "harmonious world" that China's president, Hu Jintao, once championed? Where is the charm offensive that was meant to underpin it? Recent revelations about its military programmes are the latest Chinese moves to have unsettled the world. Strip the charm from Chinese diplomacy and only the offensive is left. Sino-American relations are at their lowest ebb since a Chinese fighter collided with an American EP-3 spyplane a decade ago.

In the past few weeks China has made a splash with progress on an anti-ship missile and a stealth fighter jet. Every country has legitimate interests and the right to spend money defending them, especially a growing power like China. But even if their purpose is defensive, such weapons will inevitably alarm America and China's neighbours. In the harmonious world China says it seeks, assertiveness needs to be matched with reassurance and explanation. Yet China undermined the confidence-building visit this week to Beijing of Robert Gates, America's defence secretary (see picture), when it staged a test flight of the new jet (see article). It was an unfortunate curtain-raiser for the visit of China's president, Hu Jintao, to Washington on January 18th.

Sino-American relations have been deteriorating for a year. On his first visit to China in 2009 President Barack Obama was treated with disdain, and the Chinese government reacted with fury when he sanctioned arms sales to Taiwan that were neither a surprise nor game-changing and saw the Dalai Lama-also routine for American presidents. China broke off military-to-military contacts and officials suddenly stopped returning American diplomats' calls.

Tensions have also been growing with neighbours that China was once careful to cultivate. China has more forcefully asserted sovereignty over great swathes of the South China Sea. It overreacted after a Chinese trawler rammed a Japanese coastguard vessel in contested waters controlled by Japan. It got into a spat with India over visas for Kashmiri residents. And it failed to condemn the North Korean sinking of a South Korean corvette and the shelling of a South Korean island. Even Africa, once extremely friendly to China, is having doubts. Anger in Zambia is growing over Chinese managers who shot at mine workers.

Whereas a single incident sparked the spyplane crisis, today's tensions are the culmination of lots of different things. China's new raw-knuckle diplomacy is partly the consequence of a rowdy debate raging inside China about how the country should exercise its new-found power. The liberal, internationalist wing of the establishment, always small, has been drowned out by a nativist movement, fanned by the internet, which mistrusts an American-led international order. Western hawks conclude that China has broken with the pragmatic engagement it has followed for three decades. Its tough new line, they say, warrants an equally tough response.

**Don't underestimate America**

China's recent behaviour is in part the product of a miscalculation, dating from the global financial crisis. Many Chinese believe that America's power has gone into an inexorable decline. Chinese leaders' preoccupation with sweeping changes to the Communist Party hierarchy in 2012 may be helping to reinforce this belief. At a time of domestic uncertainty, running down the foreign opposition is popular.

America is certainly losing clout in relative terms, but it will remain the world's most fearsome military power for a very long time. If China behaves as though America is weak, and seeks to push back its power, a querulous but well-tended relationship could slide into competition and confrontation and bring about a cold-war stand-off or rivalry for influence in neighbouring states. Already, China's tough new attitude is having an effect. America has redoubled its commitment to policing the South China Sea. Japan and South Korea have just announced closer defence co-operation. This does not serve China's interests.

Mr Hu needs to counter rabid anti-Americanism at home by acknowledging the stabilising role the United States plays in the region, from which, indeed, China gets a huge free ride in the form of safe sea lanes and vast supplies of Middle East oil. And he should use his visit to America to reassure Mr Obama that pragmatic engagement still holds. He needs to show the world an open, confident face of a rising China. And though Communist leaders don't "do" apologies, Mr Hu must persuade the world that a prickly year has been an aberration.

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In praise of Wikipedia

## Wiki birthday to you

Jan 13th 2011 | from PRINT EDITION

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**A celebration of an astonishing achievement, and a few worries**


THE internet's omniscience is one of its most useful and transformative features [Citation needed]. Whether you want to look up an obscure word or phrase, get a quick briefing on an historical figure or dig into a little-known scientific or political concept [Example needed], help is just a click away. In part this is because of the power and reach of Google's search engine; but search is only as useful as the information it retrieves, and for many common queries the top match will be an entry in Wikipedia, an online, user-generated encyclopedia which celebrates its tenth birthday this week (see article).

Wikipedia started life as an offshoot of Nupedia, a free, online encyclopedia being written by experts. To speed up the production of articles, two members of the Nupedia team, Larry Sanger and Jimmy Wales [see Wales (disambiguation)], had the idea of allowing anybody to edit entries, using "wiki" technology. The result quickly eclipsed Nupedia.

It is an astonishing success story [Further explanation needed]. On paper, the idea that volunteers could collectively produce the largest and most popular encyclopedia the world has ever seen sounds implausible. Surely reference works need to be compiled by experts [Disputed]? Yet Wikipedia now has over 17m articles, 3.5m of them in English, and its popularity-it is one of the ten biggest sites on the web and is used by around 400m people each month-shows how much people value it. As well as being a useful reference work, Wikipedia is also the most striking example of the idea that volunteers working together online can collectively produce something valuable. Not everyone can contribute to (or even understand) open-source software projects, but anyone can see how Wikipedia's "crowdsourcing" model works. It showed that the wisdom of the masses could be harnessed, inspiring many other crowdsourced projects-a further reason to celebrate its success [This article reads like an editorial or opinion piece and may require cleanup].

For all Wikipedia's achievements, however, it inspires three worries: that it contains too many inaccuracies; that it is not financially sustainable; and that it has lost touch with its founding ideal of being open to all [Verification needed].

Start with the question of accuracy. Given that Wikipedia relies on its readers to spot and fix inaccuracies, errors are inevitable; entries may also have deliberate biases or inaccuracies introduced into them for political, personal or commercial motives. There have been several hoaxes. Britain's exam watchdog, Ofqual, warned in 2009 that Wikipedia was not "authoritative or accurate" and entries "may be completely untrue". Studies suggest that Wikipedia may not be as accurate as specialist information sources, but compares well with the accuracy of books, newspapers and magazines. If you look up a subject you know about on Wikipedia, you will find that it mostly gets things right. Even Ofqual conceded that Wikipedia "can be an excellent starting point for research". Its ability to provide a quick overview of a subject, with links to abundant references, is of immense value [Editorialising].

What of Wikipedia's sustainability? Over the past decade there have been occasional funding crunches as the site has grappled with its rapid growth. Yet a recently completed fundraising drive brought in $16m in donations in 50 days from 500,000 users. This suggests that Wikipedia has become more professional in its fundraising, and that crowdsourcing money, as well as content, is a viable model. The ubiquitous banner ads featuring Mr Wales annoyed some users [Attribution needed], but would probably be regarded by most as preferable to taking advertising or selling up to become part of an internet or media conglomerate, both of which might threaten Wikipedia's neutrality and its non-profit, volunteer-driven ethos.

**This article or section needs consensus**

It is the third worry-that Wikipedia has become ossified and bureaucratic, discouraging new users from contributing-that is the greatest cause for concern. In recent years its most active contributors have become obsessed with obscure questions of doctrine and have developed their own curious jargon to describe the editing process. The number of regular contributors to Wikipedia's English edition peaked in March 2007 and has since declined by a third; the number of new contributors per month has fallen by half. Growth in the number of articles and edits has also levelled off. Mr Wales says all this is a sign of maturity: "The project is more complete-there's less to work on [Verification needed]." But insiders worry that new users perceive Wikipedia as "uninviting" and "insular".

Wikipedia is already starting to look rather stiff and middle-aged. To ensure its long-term health, it needs to rediscover the flexibility of its early years.

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Letters

# On business in Israel, Colombia, Ecuador, Quebec, Kashmir, suits, happiness, Tehran, baby-boomers

Jan 13th 2011 | from PRINT EDITION

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Letters are welcomes via e-mail to letters@economist.com

**Business in Israel**

SIR - The main obstacle to Israel's long-term economic success is not the failure to assimilate both Arab-Israeli and ultra-orthodox Jews into its business culture, although that is a big challenge (Schumpeter, January 1st). What will probably determine Israel's economic future is its ability to resolve its political and territorial conflicts with the Palestinians and neighbouring countries. To evaluate Israel's economy removed from the geopolitical context may be what its present leadership would prefer, but I very much doubt that foreign direct investment will continue to flow at present rates if these conflicts are not mitigated.

High-tech companies can move relatively easily, as can the qualified Israeli manpower driving them. Both are likely to seek safer pastures if the Israeli leadership doesn't get its act together soon.

Emanuel Shahaf
Chief executive
Technology Asia Consulting
Jerusalem

SIR - Both the government and private foundations in Israel are making real progress towards more social and economic integration. Kemach, the foundation which I helped establish four years ago, has assisted thousands of ultra-orthodox young people to train for careers, both vocational and professional. Thousands more seek guidance to combine their lifestyle with the ability to work and support their families. Similar initiatives exist for the Arab sector of the population.

Israel's ultra-orthodox young men have already shown that their years of Talmudic study have honed their minds in such a way that they have much to offer to high-tech employers. In years to come they will be an important component in ensuring that this small country's economic miracle continues.

Jack Schuldenfrei
Consultant
Kemach Foundation
Jerusalem

**Colombian diplomacy**

SIR - We completely disagree with your assertion that "there was nothing diplomatic about Alvaro Uribe", Colombia's former president ("Seeking new friends", December 11th). Between 2002 and 2010, Colombia recovered its standing in the international community thanks to remarkable improvements in our domestic policy, not just in security matters, but also the rule of law, economic performance and social policy. We negotiated more than nine foreign-trade agreements and eight bilateral investment agreements. Colombia was an active promoter of the Plan Panama-Puebla that works to integrate infrastructure and energy in Central America. We developed unprecedented co-operation programmes in vocational training and police capabilities. We also worked with the Organisation of American States and the Union of South American Nations (Unasur).

There is no question that Mr Uribe took strong action against guerrillas and drug-traffickers. Despite the fact that some leaders in the region were ambiguous about those groups, Colombia developed an effective foreign policy and diplomacy that showed them to be criminals and terrorists. Sometimes a firm hand is needed for diplomacy to work in the defence of democracy and liberties.

Jaime Bermudez
Former minister of foreign affairs
Luis Guillermo Plata
Former minister of trade
Bogota

**Press freedoms in Ecuador**

* SIR - Sometimes it is easier to ascribe actions to sinister purposes, even when the facts lead elsewhere ("Just collecting the rent, really", Americas view, December 22nd). Here are the facts for which your blog post on *Vanguardia*, a weekly magazine in Ecuador, seemed to have little regard.

Previous governments in my country have not always been quick to insist on payments owed to the government by private interests. When businesses evade their obligations it leads to greater costs for honest taxpayers.

The company that owns and publishes *Vanguardia* was notified in November 2009 that they would have to vacate when their 2007 lease expired unless they reached a new agreement with the government, which owns the building where they operated.

Evictions are never pretty. *Vanguardia*'s assets, removed in the eviction, are safe and available to them. Computers and hard drives are intact. Freedom of press is alive and well for publishers of all political views in Ecuador.

Ana Alban Mora
Ambassador for Ecuador
London

**Party stance**

SIR - Your article on corruption in Canada stated that apart from the Quebec Liberal Party (QLP), all the other parties in Quebec "lean towards separatism" ("Les fleurs du mal", December 11th). This is wrong as the party that I lead, the Action Democratique du Quebec, is against separatism. We want Quebec to play a positive role within Canada and offer the option of being proud Quebecers and proud Canadians.

Furthermore, you mentioned that Quebec's premier, Jean Charest, accepted a 30% pay cut "by agreeing to give up a top-up salary provided by the Liberal party". In fact, Mr Charest was forced to accept the cut only when this behaviour became illegal under Quebec's new ethics law.

Gerard Deltell MNA
Leader of Action Democratique du Quebec
Quebec City

**The trouble in Kashmir**

SIR - Your report on the recent militancy in Kashmir stated that many people wonder why is it that Muslims have not turned on Hindus "to seek communal revenge for repression" ("Shaking the mountains", January 1st). As evidence, you said that "Hindu pilgrims visit a sacred spot in the state, but have so far been left unmolested." In 2008 the Shri Amarnathji Shrine Board, which runs the pilgrimage you referred to, wanted to set up temporary accommodations for Hindus visiting the site, but were stopped after violent protests among Kashmiris. Do not forget that starting in the late 1980s, most Kashmiri Hindus, or Pandits as they are often called, were forced to flee the valley and sought refuge in neighbouring states or other countries. Hundreds of temples have been damaged or demolished.

Furthermore, your characterisation of Syed Ali Shah Geelani as a "moderate" is debatable. Mr Geelani has long called for *nizam-e-mustafa* in Kashmir, or a pure Islamic state based on sharia law. He has rejected every proposed compromise, including joint rule between India and Pakistan, and seeks greater self-rule and autonomy.

In short, you called for India to think outside the box on Kashmir. I agree. However, the situation is far more complex than you make it out to be.

Avinash Mantha
Mequon, Wisconsin

**A sense of style**

SIR - I appreciated the background you gave to the origins of men's suits ("Suitably dressed", December 18th). By way of contrast, there is a struggle to establish a similar global standard for appropriate work wear for female executives, which is stymied by a background of befuddled fashion statements and without the benefit of heritage.

Perhaps Beau Brummel's axiom to dress so as not to turn heads should be augmented with the words of Coco Chanel: "Dress shabbily and they remember the dress; dress impeccably and they remember the woman."

Carol Alayne
Tailoring for Women
London

**Tax satisfaction**

SIR - I noted in your December 18th issue that Denmark is the "happiest" country ("The rich, the poor and Bulgaria"), and also the country with the largest share of tax revenue as a percentage of GDP (Economic and financial indicators). Does one conclude that higher taxes lead to increased well-being?

Ron Janzen
Steinbach, Canada

**Flying into Tehran**

* SIR - There is nothing new in your account of Tehran's poor air quality ("The smoggiest of all capitals", January 1st). In 1968, as a flight lieutenant flying Canberra aircraft with Central Treaty Organisation forces in the days when Iran was a member, I flew into Tehran several times. On one occasion, when an inversion held the particle-filled air down, I arrived at 200 feet above the ground on my final approach and was still unable to see the runway. This can often happen in fog and very low cloud, but this was a fine sunny day.

Although it was impossible to see the runway obliquely through the pollution, I caught a glimpse of the runway from vertically above and was able to corkscrew down to a landing with apologies to a civil aircraft behind me who was equally keen to land. I trust that automatic landing systems are now available.

Diccon Masterman
Borgo a Mozzano, Italy

**QED**

SIR - There is a straightforward reason as to why the baby-boomer generation is becoming more conservative ("As boomers wrinkle", January 1st). As the old joke puts it, a conservative is a liberal who just got mugged, and a liberal is a

conservative who just got arrested. As one ages, the likelihood of being mugged increases while the likelihood of being arrested decreases.

Frank Lowther
Los Angeles

* Letter appears online only

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Iran's struggle

# The regime tightens its belt and its fist

Jan 13th 2011 | from PRINT EDITION

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**Isolation, international sanctions and the removal of subsidies all herald rocky times ahead for Iran's redoubtable and durable president**


THE president of Iran is a powerful communicator. When Mahmoud Ahmadinejad spoke live to the nation last month, he managed to combine seductive reasoning, patriotic appeals and more than a hint of menace. For once, though, he left even his most fervent supporters unmoved, for he was announcing the beginning of the end of subsidies on which millions of them depend. These measures are the gamble of his presidency-and may be the most important economic reform in the Islamic Republic's three-decade history.

From top ayatollahs to the IMF, everyone agrees that spending $100 billion each year to pin down petrol, gas and electricity prices, besides the cost of staples such as flour and cooking oil, is a bad way to dispose of Iran's hydrocarbon revenues, accounting for more than 10% of GDP and encouraging waste on an epic scale. The symptoms of the malaise are legion: tea kettles simmer all day; the streets clog with recreational drivers out for a spin; lights glare because no one can be bothered to turn them off. "We can do it because we have oil," Iranians used to tell incredulous visitors. Oh, happy days.

By the day after his speech Mr Ahmadinejad's axe had cut a merciless swathe. The price of petrol had gone up by 75% and that of diesel by more than 2000%. Electricity and water bills are expected to soar. The price of some types of bread has quadrupled-and many an upheaval in Iran's history started with a bread riot. No wonder the streets of the capital, Tehran, were heavily policed after the president's speech, as people scrambled for the last drops of subsidised petrol.

Supported by the state television monopoly, which has campaigned relentlessly in favour of the reforms, Mr Ahmadinejad has been at pains to point out their redistributive character. The old system, it is true, favoured the rich; it was they who ran fancy but inefficient cars and heated their big houses like saunas. The government has already doled out some of the money it expects to save in the form of direct subsidies into private bank accounts (of the poor, mostly), while staggered utility prices will reward thrift. The more water, gas and electricity an Iranian consumes under the new regime, the more expensive these utilities become.

With its emphasis on simple living and an end to class divisions, the government's propaganda is more than a little reminiscent of the piously egalitarian early days of the Islamic revolution. One pro-Ahmadinejad newspaper invoked the Koran as an inspiration for ending subsidies. In his television address Mr Ahmadinejad advised people to put the subsidies entering their bank accounts towards their next utility bill, but anecdotal evidence suggests that many have withdrawn the cash and are on a spree. "People are just happy to have money coming to their bank accounts," comments one Tehrani. "They will get a nasty shock when the bills pile up."

The president claims that the new measures will leave 60% of the population better off than they were under the old system, with only the richest 40% having to tighten their belts. More of the cash the government expects to save through the reforms will be ploughed into housing and infrastructure. In five years, by which time the last subsidy is meant to have been eliminated, Mr Ahmadinejad predicts that Iran will be "paradise on earth".

The government's primary goal, a reduction in waste, has already been achieved. In the first three days of the scheme, the authorities say, electricity use dropped by 11% across the country, and millions of litres of petrol were saved. "From now on," says a Tehran housewife, "I will think twice before using the washing machine." She expects her family to have to move to a smaller flat, "as higher energy prices mean we will no longer be able to afford to run the one we have." Car prices fell slightly in the first week of the reforms.

But the new measures are likely to be highly inflationary, particularly after the government exhausts its stockpiles of commodities such as rice and cooking oil, limiting its ability to manipulate prices. Inspectors have been out in hordes, enforcing a government prohibition on runaway price increases, but upward pressure on all but a few staples will be hard to resist. In the words of a doctor at a private hospital, "The cost of everything we provide, from surgery to medicines to convalescence, is going to go up, because everything is linked to energy prices." On the first day under the new scheme there were empty taxis on Tehran's streets. "They are travelling empty", said one driver, "as a protest at government price controls. How long can we afford not to reflect the new fuel prices in the fare we charge?"

Mr Ahmadinejad promises to shield Iran's beleaguered manufacturers from soaring energy bills by giving them handouts. Still, a knock-on effect on unemployment, already around 15%, seems unavoidable. Fortunately for the president, inflation, which ran at around 25% in 2008, has since fallen to 10% while international commodity prices have dropped. But they are now rising again; and even allowing for reduced consumer demand, a return to 2008 inflation levels, say economists, is the best that can be expected.

Chronic maladies call for strong medicine, but Mr Ahmadinejad makes an unlikely healer. He is Iran's most polarising president in decades, and has spent much of his five years in office at loggerheads with his rivals at home. For all that, the subsidy reforms enjoy broad support, even from his stiffest critics. Anything less would be considered treasonous, for the Islamic Republic now exists in a carefully managed state of national emergency.

### Everyone must watch his step


Ahmadinejad, reformer and polariser

The supreme leader, Ayatollah Ali Khamenei, who enjoys practically untrammelled power, periodically calls Iran's bickering politicians to order and has shielded the president from the danger of impeachment. The country has been tense and sombre since the summer of 2009, when Mr Ahmadinejad's disputed re-election brought millions of opposition supporters onto the streets, culminating in a vicious crackdown by the authorities. The opposition has since been cowed; but what confidence ordinary Iranians had in the future has now evaporated, for the country is suffering unremitting international pressure directed against its nuclear plans and is reeling from several lethal bombings in Tehran and in some of the country's troubled border regions-all against a backdrop of intensifying state repression.

From international criticism of a spate of executions to the British ambassador's recent championing of Iranian human-rights activists, Iran's leaders point to a Western conspiracy to destabilise the country in favour of the official losers of the 2009 poll, Mir Hossein Mousavi and Mehdi Karroubi, and their liberal politics. Fearing a backlash, the authorities have refrained from arresting the pair, but their political activities are now limited to putting out statements on their websites. Lesser opposition figures have got off less lightly. The past two months have seen the arrest of (among others) three reform-minded journalists, four opposition politicians and an economist who criticised Mr Ahmadinejad's subsidy reform. In January Nasrin Sutoodeh, a human-rights lawyer, was jailed for 11 years, while film-makers around the world have protested at the six-year sentence recently imposed on Jafar Panahi, a dissident Iranian director.

Attacks at the end of November on two scientists involved in the Iranian nuclear programme, one of them fatal, have been attributed to Western intelligence agencies, as was a massive suicide-bomb in the southern port of Chabahar, on December 15th, which killed at least 39 people. (Baluch separatists, whom Iran accuses of getting American help, claimed responsibility.) On January 10th the Intelligence Ministry announced the arrest of several people for their involvement, allegedly at Israel's behest, in the assassination of a physics professor who had been linked to Iran's nuclear programme.

The biggest contributor to Iran's pervasive sense of encirclement, however, and the sharpest spur both to reform and repression, is the sanctions regime that the United States and its allies have imposed. Four years ago, when George Bush's administration was trying to win Chinese and Russian support for its sanctions drive, officials in Washington insisted that their intention was simply to penalise those Iranians involved in their country's nuclear programme, which America, its European allies and the leaders of many Middle Eastern countries (as revealed by WikiLeaks) regard as a front for bomb-making. Since 2006 China and Russia have signed up, however reluctantly, to six UN resolutions against Iran, while America and its European allies are now promoting a still broader range of sanctions.

According to Stuart Levey, the American Treasury official who plots his country's sanctions policy, the aim is not only to force Iran to forgo its insistence on self-sufficiency in nuclear power, but also to rethink its "support for terrorism, suppression of dissent, and abuse of the financial system". Mr Levey's aim is to dissuade the world from doing business

with Iran, and his blend of blandishments and threats has been effective. The authorities in Dubai, a hop across the Persian Gulf from Iran's southern coast, no longer welcome Iranian businesses or workers, Iranian banks are boycotted by companies around the world, and shipments to or from Iran are delayed by customs officials on suspicion that their cargoes are proscribed. Iranians are experienced sanctions-busters, but the solutions they favour, which include setting up front companies and using middlemen to transfer money, are expensive even when they work.

**Blessing and curse**

As America's latest efforts suggest, and Mr Ahmadinejad's energy-saving reforms implicitly acknowledge, Iran's oil is both a blessing and a curse. It would be hard for the Americans to stop the world, especially China, which sees Iran as a major supplier of its own energy, from buying Iranian oil. But the Islamic Republic has limited refining capacity and has long relied on foreigners for roughly a third of the petrol it consumes. So last June, when America's Congress authorised Barack Obama to penalise foreign companies that sell petrol to Iran, the Iranians reacted by stepping up their drive for self-sufficiency.

Iran is vulnerable both as a consumer and an exporter. The Iranians now boast that they are self-sufficient in petrol, but this has been achieved only by switching petrochemical plants to petrol production, reducing the country's petrochemical exports and worsening its balance of payments. Further, as an illustration of Iran's febrile mood, many Iranians blame a recent lethal rise in air pollution on the allegedly low quality of indigenous fuel. It is doubtful whether Iran's leaders can achieve all their stated aims of maintaining petrol production, manufacturing lots of petrochemicals and cleaning the foul air their citizens must breathe.

Saving and self-sufficiency are the mantras of the day. Although the subsidy reforms are supposed to hand control over prices from the government to the market, the trend is towards more government interference in citizens' lives. In truth, the president has been chipping away at individual Iranians' autonomy ever since he came to power, as each internal palpitation and outside threat becomes a pretext for the country's security chiefs to exert more control over the people.

The state's growing authoritarianism is expressed in different ways, from the hectoring tone of official speeches to the now total intolerance of the liberal opposition. Newspapers may no longer mention Messrs Mousavi and Karroubi, and the country's biggest liberal political party has been banned. Companies tied to the Revolutionary Guard, which generally backs Mr Ahmadinejad but must answer to the supreme leader, Mr Khamenei, flaunt the dominance they enjoy in such fields as hydrocarbons and civil engineering. The *baseej*, a volunteer militia that played a big part in suppressing the 2009 disturbances, is on a vigorous recruitment drive.

In November, after a long tussle, a huge network of private universities fell into the government's clutches. Nor has the public sector's dominant position been dented by the government's spurious privatisation programme; according to the World Bank, a mere 14% of offloaded public-sector outfits have ended up in private hands.

From films to television and book-publishing, Iran's official culture is now dominated by a small, pro-government clique. Favoured screenwriters and film-makers are rewarded with permits and funding. Those who refuse the government's largesse-and the creative obligations accompanying it-find themselves out in the cold. Last month the annual commemoration of the death of Shia Muslims' favourite martyr, the Imam Hossein, was unusually subdued. Mourners gathered under the watchful eye of thousands of policemen. The authorities apparently feared that the event would be hijacked by the opposition, as happened in 2009.

The government's tools are not only, or even mostly, intimidation, but also the perks and promises of a monopolistic state. People who attend mourning ceremonies in government offices are rewarded with free food. *Baseejis* get into university more easily than non-*baseejis*. Civil servants in some departments are given loans on generous terms.

American officials depict the international campaign to ostracise Iran as successful coalition-building. It may well end up destabilising the Islamic Republic. In the short run, however, sanctions and isolation have strengthened the hardliners whose policies America most dislikes.

More than the big state-backed enterprises, whose money and connections let them circumvent sanctions, the relatively pro-Western private sector is suffering from the squeeze on finance, restrictions on imports and a paucity of spare parts. Westernised, middle-class Iranians have been inconvenienced by the refusal of fuel suppliers at European airports to fill up Iranian airliners. Iran has responded in kind, with the result that most flights between Tehran and Europe now stop for fuel in a third country. Even cultural collaborations between Iranians and Americans have fallen foul of sanctions.

As long as the Islamic Republic can sell oil at high prices, Iran's gravy train will trundle on. There is no sign yet that Western pressure has convinced Mr Khamenei to abandon his plans, vociferously endorsed by Mr Ahmadinejad, for Iran to become a big producer of nuclear fuel.

Recent talks between Iran, the United States and the European Union have achieved little, even if the parties did agree to meet again. The Iranians suspect America of being behind the recent sabotage of one of their main nuclear facilities, which led to a temporary halt in uranium-enrichment work, and have noted WikiLeaks' revelations concerning American lobbying against Iran at the very time, in 1999, when Mr Obama was proposing detente. The Iranians now depict him as dishonest and his overtures as a sham.

**Sanctions help the hard men**

All in all, for the hardliners in Tehran, Iran's isolation is not without advantages. The last period of relative detente with the West, under Mr Ahmadinejad's liberal-minded predecessor, Muhammad Khatami, was a nightmare for the supreme leader. Revolutionary values were diluted and there was a clamour for more democracy. That has now come to an end, and negotiations give Iran's diplomats a chance to grandstand about Israel's nuclear weapons. The top brass threaten the Israelis with dire consequences if they dare attack Iran's nuclear facilities.

Behind the disturbances of 2009 lay abstract middle-class worries. Those Iranians who took to the streets were angry at the contempt they had been shown by their rulers. The danger now is that the subsidy reforms will be badly managed and that these dissatisfied Iranians will be joined by a new, more volatile mass-poorer and less easily intimidated.

Many in Iran's higher echelons are caught between loyalty to the regime and a desire to see Mr Ahmadinejad fall flat on his face. His chutzpah undimmed, he drives many of his ideological bedfellows to distraction. One upshot of the Islamic Republic's intolerance is that power tussles now centre on personalities, not ideas. Indeed, when the president abruptly fired his foreign minister, Manouchehr Mottaki, in December, it was interpreted as a rebuff to the supreme leader, who had proposed Mr Mottaki in the first place, and a boost for the president's unofficial ambassador-at-large, Esfandiar Rahim Mashai.


Tehran's not easy to breathe in

Whoever the personalities, it is Mr Khamenei who sets Iran's course, and that seems unlikely to change. In foreign affairs the Islamic Republic's policy is to exploit its reputation across the Muslim world for principled opposition to America and Israel, while strengthening economic ties with China, its main shield against sanctions, and emerging powers such as Brazil and Turkey. At home, the plan is defensive: to hunker down and prepare for the economic, political and perhaps military challenges that lie in store. Before Iran reaches paradise, a spell in purgatory beckons.

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The shooting of Gabrielle Giffords

# The tears of Tucson

Jan 13th 2011 | *WASHINGTON, DC* | from PRINT EDITION

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**America is plunged into mourning and political acrimony**


AMERICA, Barack Obama eloquently declared this week, has been shaken from its routine, and forced to look inward. And so it has: in response to the attempted assassination of Gabrielle Giffords, a congresswoman from Arizona, Congress cancelled all its scheduled business for the week, including a vote to repeal the president's health-care reforms, and instead passed a resolution of sympathy for the victims. Mr Obama, along with several cabinet members and congressmen, flew to the scene of the tragedy, Tucson, for a moving memorial service. And the media set aside all other subjects to engage in a frenzy of recrimination.

The attack took place outside a Safeway supermarket where Ms Giffords was holding a public meeting. Six people were killed-an aide to Ms Giffords, a federal judge, a nine-year-old girl and three senior citizens. A further 13 were injured, including Mrs Giffords, who was shot in the head at close range but is likely to survive.

Bystanders overpowered the suspected gunman, Jared Loughner, as he attempted to reload his semi-automatic Glock pistol. He has already been charged in federal court with the murder and attempted murder of the various federal employees caught up in the attack. Further charges may be added, both by the federal authorities and by the state of Arizona.

The Federal Bureau of Investigation says that apart from stating that he acted alone, Mr Loughner has not co-operated with their investigation. But they have found papers at his home which appear to make reference to plans to assassinate Ms Giffords. She wrote to him in 2007 after he asked a question at a similar event; he wrote "Die, bitch" on the letter.

The reasons for Mr Loughner's hatred of Ms Giffords remain obscure, however. He appears to be a loner and conspiracy theorist of a vaguely right-wing variety. He has posted rantings online about the government's attempts at mind control and the debasement of the dollar. But his politics are hardly consistent: according to his MySpace page he likes both the works of Adolf Hitler and Karl Marx. In one of his videos, an American flag is burned.

Above all, Mr Loughner simply seems disturbed. Staff at a local community college where he studied until last year summoned the police five times in response to his outbursts. A fellow student wrote to a friend at the time that he was the sort of person who would go on a shooting spree. He was eventually suspended pending a psychiatric review that he never took; questions are now being asked about whether he should have been obliged to have one. He was arrested twice in recent years, once for possession of marijuana and once for defacing a road sign. None of this stopped him buying a deadly weapon.

Despite the seeming lack of any coherent political motive for the attack, assorted politicians and pundits argue that the vitriolic tenor of politics in America gives unstable people an excuse to resort to violence. Arizona, says the local sheriff, Clarence Dupnik, has become "the mecca for prejudice and bigotry". In 2009 a pastor in a small Arizona church caused a stir by telling his congregation that he prayed that Mr Obama would "die and go to hell". The windows of Ms Giffords's offices were bashed or shot out after she voted for Mr Obama's health-care reforms last year.

Ms Giffords's father, when asked if she had any enemies, replied, "the whole tea party", referring to the right-wing protest movement that nearly unseated her in November's election. Outraged bloggers point to a map published online during the campaign that had marked her district and others that the Republicans hoped to wrest from the Democrats with crosshairs. Moreover, they add, Sarah Palin, the former Republican vice-presidential candidate and a leading light of the tea-party movement, who heads the campaign outfit in question, often resorts to martial slogans. Mrs Palin dismisses such charges as "blood libel", arguing that they foster the sort of bitterness their proponents claim to oppose.

Right-wing bloggers, for their part, have unearthed several instances where Democrats used equally violent language on the campaign trail. Mr Obama, for one, once said that if their opponents brought knives to a fight, the Democrats should bring guns. Several Democratic groups, it turns out, used maps very similar to Mrs Palin's during the election campaign, albeit with bull's-eyes rather than crosshairs on the seats they were "targeting". Anyway, Mr Obama himself asserted in his speech at the memorial service that partisan rancour did not cause the killing.

Threats against congressmen do seem to have become more numerous in recent years, although actual attacks remain mercifully rare. The Senate's sergeant-at-arms says the number of threats reported to him rose markedly in 2010, as the furore over health-care reform reached its climax. Congress is discussing whether police should provide security at all its members' public events-something that does not happen at the moment. A Democratic congressman plans to introduce a bill that would make it a crime to threaten or incite violence against any federal official.

But most observers pooh-pooh the idea that Congress will do anything to guard against similar incidents in the future. Proposals for stricter gun laws, in particular, seem likely to fall foul of Americans' constitutional right to bear arms, and the gun lobby's ferocious defence of it. The only restrictions proposed so far in Congress are modest: barring guns from events involving senior officials, for example, or prohibiting magazines capable of holding more than ten bullets (the one that Mr Loughner is alleged to have used carried 30). But John Boehner, the new Speaker of the House, says he opposes the first measure, and Congress allowed a previous ban on high-capacity magazines to expire in 2004.

Indeed, there is talk, as always after a bloody shooting spree, that the solution is more guns, not fewer. Several members of Congress have said that they will start carrying guns themselves in response to the attack. Arizona already has some of the laxest gun laws in America, allowing guns in bars, for example, as long as the person carrying them is not drinking. Support for stricter gun laws has been in steady decline in America over the past 20 years, according to Gallup, a pollster; a clear majority now opposes any tightening. Even Mrs Giffords herself owns a Glock. America will soon dry its tears, and mass shootings seem sadly likely to continue.

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The Deepwater Horizon report

# The case for improvement

Jan 13th 2011 | from PRINT EDITION

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**The oil industry needs better regulation, as well as more**

We have a problem

THOSE greenish types who were hoping that the commission on the Deepwater Horizon oil spill would call for radical curbs on offshore drilling have been disappointed. The commission, created by Barack Obama last May, said in its full report on January 11th that the security of the country's energy supply and the dependence of the transportation sector on oil do indeed need to be addressed. But it did not call for further offshore drilling to be ruled out; on the contrary, it stressed a belief that, if properly managed and regulated, the risks of offshore drilling are still acceptable. Its account of the disaster, its context and its repercussions, however, makes clear just how far from such proper management and regulation the industry had departed by April 20th 2010.

The commission lays the blame for the accident on all three of the main companies involved: BP, which was in overall charge of the well; Transocean, the contractor which owned and crewed the rig drilling it; and Halliburton, responsible for the cement that failed to seal the well up as it was meant to. Poor management and communication within and between the companies, as well as a number of outright errors, led to unnecessary and unrecognised risks being taken. On the basis that the contractors in question work in more or less every offshore field in the world, the commission found, this amounts to a systemic failure in the industry.

The American Petroleum Institute (API) sees this aspersion on the industry as a whole as unfair, since however much work those companies do they are only three in a sector of hundreds. The commission, for its part, seems to have little time for the API, which it sees as compromised in its attempts to set technical standards by its role as an advocate for the industry as a whole. The report calls on the oilmen to set up a new and separate safety body, as the nuclear business did after the Three Mile Island accident. This, it says, should be kept separate from the API, since for the safety institute to be credible it needs to seek out the very best practice, not an industry consensus.

Such self-policing should be an adjunct, not an alternative, to better regulation. The commission wants the regulatory reforms already put into place to be beefed up with the creation of a new, fully independent safety regulator. And it wants that regulator to take a new approach. After the loss in 1980 of the Alexander Kielland, a Norwegian rig, and the explosion in 1988 of Britain's Piper Alpha platform, which between them claimed almost 300 lives, regulators put a new responsibility on operating companies to go beyond meeting existing standards and demonstrate that in the round their plans had minimised all the relevant risks: to make a positive "safety case" for their proposal.

The commission is keen on this kind of approach, which automatically keeps up with the ever more extreme technology being used-deepwater and ultradeepwater drilling has developed at staggering speed-in a way that setting standards in advance cannot. Such safety cases, it notes, should include well-developed plans for what to do if things go wrong, plans that were signally lacking in the case of Deepwater Horizon.

There is a lot more sensible advice in the report, including protecting budgets for oil-spill researchers and regulators, having more relevant government expertise applied to risk assessment, and ensuring that independent experts can get at data when things go wrong. The report points out that developments in the Arctic require more thought and some specific actions: the Coast Guard's capabilities in the north should be significantly improved.

There are also revealing details of shortcomings and grandstanding in the gulf response. The positioning of booms to contain the surface oil-buoyant orange evidence that something was being done-often owed more to politics than practical planning. The lengthy offshore berms on which Louisiana's governor Bobby Jindal and other local politicians insisted proved a costly fiasco. The need to spend money on the gulf environment in more helpful ways, though, is one of the report's main conclusions; it calls for 80% of the fines that BP will end up paying-a sum in the billions-to be used on environmental restoration redressing damage from many other sources as well as the recent spill.

The markets responded to what was not in the report: conclusions of criminal misconduct and recommendations that the sector be reined in. Shares in BP, Transocean and Halliburton all went up on the day that the conclusions were released. More important will be the reaction of politicians. Much of what the commission suggests can be done without legislation, but for some things Congress will need to be involved, which may give the industry's misgivings some play. Still, the report's good sense and specific focus should stand it in good stead.

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California's budget crisis

# Modocians and Alamedans

Jan 13th 2011 | *LOS ANGELES* | from PRINT EDITION

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**Jerry Brown hopes to pass a budget by doling out equal pain to all**

SETTLING back into the governor's office he last occupied 28 years ago, Jerry Brown this week reminded Californians that it was time to "face the music". On January 10th he duly proposed a nasty budget. California, after years of fiscal upheaval, confronts yet another deficit of $25.4 billion in the current and coming fiscal year, larger than the entire budgets of most states. The question before Mr Brown was how to apportion the coming pain so that political compromise becomes possible.

Indeed, as he spoke (unscripted, as is his wont), he chanced upon a catchy summary of California's underlying problem. In recent years, he said, the state has been paralysed by a stand-off between two alien-sounding tribes, the "Modocians" and the "Alamedans".

Modoc is, in fact, a rural and arch-conservative county in the state's extreme north-east where most people voted against Mr Brown. Alameda, east of San Francisco, is one of America's most liberal counties and voted overwhelmingly for Mr Brown. But Modocians might also stand for California's Republicans in general, who doggedly oppose any new taxes. Alamedans might typify the state's Democrats, who reflexively balk at spending cuts.

Mr Brown, ideologically a rather Protean Democrat, is deliberately making Alamedans and Modocians wince equally, in the hope that they both redefine themselves as simply Californians. Thus he proposes to address half of the budget gap with more spending cuts, to be enacted by the Democrat-controlled legislature, and then to plug the remaining gap by asking voters to extend, for five years, several temporary taxes with a ballot initiative to be voted on in June.


Taken alone, each side of this deal would be politically impossible. California has already slashed spending. The additional cuts of $12.5 billion will bleed the state's public universities, its remaining welfare programmes and its health services for the poor. Many old people with disabilities will stop receiving home visits from carers. Poor families will lose subsidised child care. The list, which reads like a ledger of Democratic taboos, goes on.

But the taxes read like the Republican equivalent of that ledger. In 2009 the legislature passed small increases in income, sales and car taxes that are due to expire this year. At a ballot, voters rejected extending these taxes. To make Mr Brown's plan work, they would thus have to reverse their own decision.

Mr Brown thinks California's problems have become so clear that voters just might do that. He is also proposing to use part of the extra revenues to begin a more fundamental reform of government. Since his last term, after voters in 1978 passed a famous anti-tax initiative called Proposition 13, money and power has shifted from schools, cities and counties to the state. Mr Brown wants to reverse that, returning both spending obligations and revenue-raising to local governments.

The advantage of his plan is the symmetry of pain and incentives. Obstructionism is now risky for both Modocians and Alamedans alike. Republicans, for example, could mobilise to prevent the tax extensions from even being put on a ballot-indeed, their leader in the state Assembly said that they "stand united" to do exactly that. But they would then be blamed for the resulting mess.

Democrats, for their part, are railing against what they see as another pounding of the weakest. But they also know that their best chance of averting an even worse fate for them lies in enacting something like the cuts that Mr Brown has proposed, and then persuading voters to extend the taxes. It is a very risky strategy, but it might just work.

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Federal debt

# Dancing on the ceiling

Jan 13th 2011 | *WASHINGTON, DC* | from PRINT EDITION

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**Talk of America defaulting on its debt is just that**

After $14.3 trillion, Geithner wants more

FOR most finance ministers default is usually a subject to be avoided at all costs. Not so in America, where Tim Geithner, the treasury secretary, sent Congress a letter on January 6th describing in gory detail the "catastrophic economic consequences" such an event would entail.

The letter was part of the dance that takes place whenever the administration asks Congress to raise the ceiling on the national debt. America is unusual in requiring a vote both to adopt a budget, and to issue any debt necessary to finance it. Grandstanding legislators typically demand concessions from the administration before raising the ceiling. There is obvious potential for a stand-off, just as there was in 1995-96, when Bill Clinton rejected the budget cuts proposed by congressional Republicans as a condition for raising the debt ceiling.

A similar confrontation now looms. The Republicans, who took control of the House of Representatives on January 5th, say they will not raise the debt ceiling until they get $50 billion cut from spending for the fiscal year that ends on September 30th.

The Treasury can still borrow an extra $327 billion and draw down some $200 billion in deposits at the Federal Reserve before it breaches the current ceiling of $14.3 trillion. Mr Geithner says that will happen between March 31st and May 16th. He can then get additional breathing space by means of various gimmicks, such as redeeming debt issued to civil-service pension plans. Lou Crandall of Wrightson ICAP, a research firm, reckons the Treasury could free as much as $223 billion that way, and another $278 billion by selling mortgage-backed securities and privately originated student loans it acquired during the crisis. These steps, he says, could tide the government over until the autumn.

Once all such devices were exhausted, Mr Geithner warned, the Treasury would have to default on something. But he did not specify exactly what. The ambiguity may be deliberate. Even with no increase in the ceiling, the Treasury can easily service its existing debt; it is free to roll over maturing issues, and tax revenue covers monthly interest payments by a large multiple. But in that case it would have to postpone paying something else: tax refunds, Medicare or Medicaid payments, civil-service salaries, or Social Security (pensions) cheques.

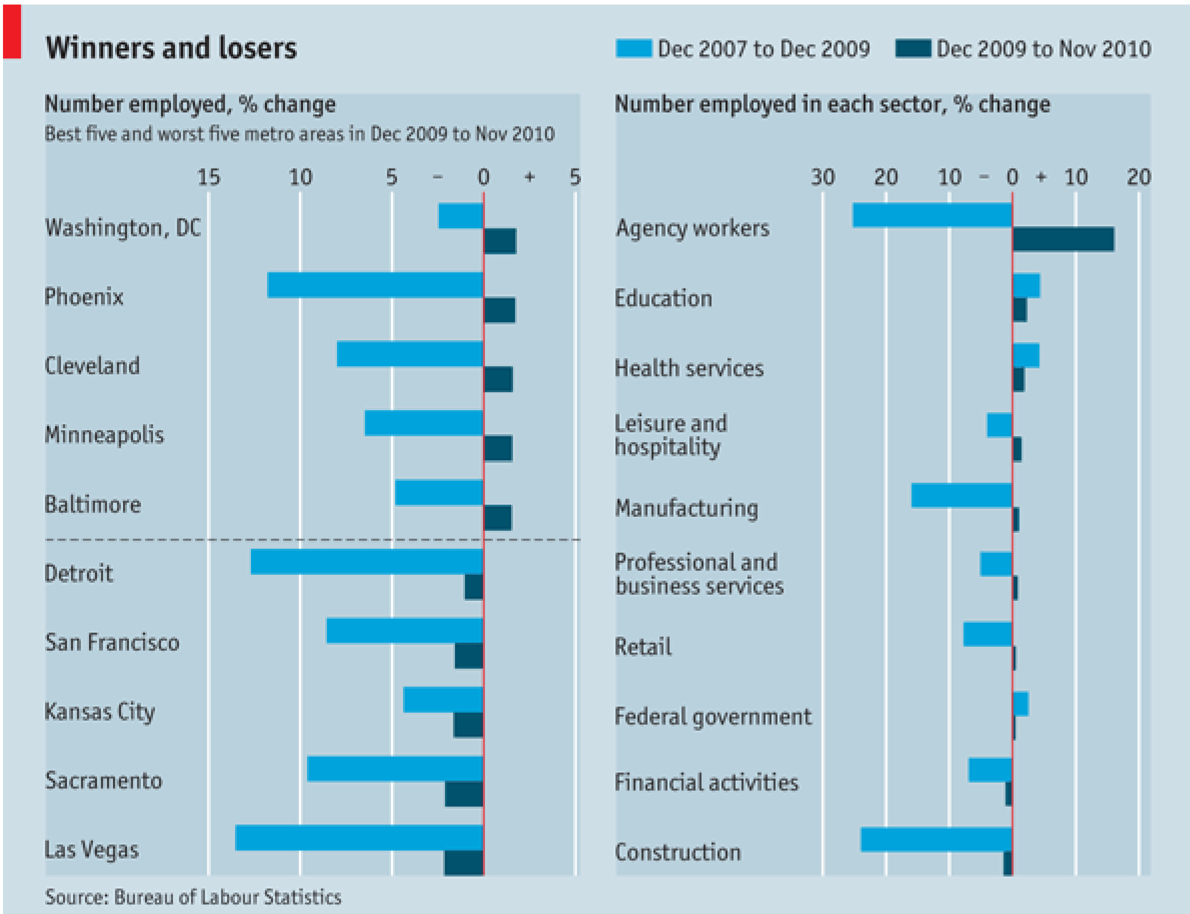
It is not clear what the legal priority is among the Treasury's obligations, whether contractual such as bond debt or statutory such as social security. "This is an area where the federal government itself is often the interpreter," says a former official. Yet if it came to it, deciding between the two should not be hard. Delayed payments may hurt pensioners and cause political damage, but a default on Treasury debt would unleash global financial chaos. Either outcome would be deeply unpleasant; that may be Mr Geithner's most potent weapon.

The recovery

# Still patchy

Jan 13th 2011 | *WASHINGTON, DC* | from PRINT EDITION

**American firms are hiring again, but hold the cheers**




WITH the dawn of 2011 America's recovery is officially longer-lived than the recession that preceded it. It is a recovery that seems to be strengthening, raising hopes that employers will at last develop an appetite for hiring. America remains over 7m jobs short of the previous employment peak, and figures published on January 7th showed that the economy added just 103,000 jobs in December-scarcely enough to keep up with population growth. The unemployment rate fell in that month by nearly half a point, to 9.4%, but that was mainly because so many jobless workers gave up and stopped looking.

For all the labour-market pain, some areas are experiencing a strong rebound. But it is hard to be optimistic about this particular recovery. Geographical variation is partly to blame. More than ten percentage points separate the nation's highest unemployment rate, in Nevada, from its lowest, in North Dakota, and in some regions rates are still rising. Elsewhere growth has been stronger than average, but highly concentrated. Of the million or so jobs added in 2010, two-thirds were created in just 11 states, and one-Texas-accounted for 20% of the country's net job gains.

Even within the fastest-growing states, hiring has been tightly packed in just a few cities, leaving most residents feeling glum. In California, tech-business centres such as San Jose and Orange County have led the state to net employment gains. In Texas, Austin and Dallas have experienced disproportionate employment growth while other large cities, such as Houston, have lagged behind. A handful of metropolitan areas-Boston, Phoenix and Minneapolis among them-also account for a disproportionate share of new jobs.

The focused nature of new employment growth can be attributed in part to the fact that the recovery has been outsourced. Professional and business services accounted for a third of hiring over the year to November. Firms in these sectors handle

a range of tasks, from consulting to caretaking, that might previously have been done in-house by firms in other industries. Many of these new positions are for temporary workers only. As firms increase production, they are expanding through contracts with outsourcing firms rather than permanent recruitment. This reflects the uncertain nature of recovery, but it also indicates a move towards leaner business models. Cost-control and flexibility are paramount. And one outcome is an employment shift from industry hubs to cities where business services are strong.

The result is less benefit for a given level of hiring. With job creation concentrated in just a few cities, many areas are experiencing no recovery at all. The high proportion of temporary work breeds insecurity, and people who feel their job is about to disappear may also be more reluctant to spend. Workers in positions where few skills are required also face pressure from the nearly 15m Americans still stuck without a job. In a hirer's market, there is little chance that wages will rise.

Where employment in skilled professions has increased, conditions were often pretty good to begin with. Employment growth, thanks to boom-times for lobbyists and their ilk, has reduced metro Washington, DC's, unemployment rate from 6.2% to 6%. The jobless rate in the Boston area has dropped from 8.3% to 7.4%, and in metro Minneapolis has declined from 7.2% to 6.5%.

Why have the rich got richer? Partly because fewer college-educated workers lost their jobs during the recession, so lower unemployment rates in some cities simply reflect a brainier citizenry. But Ed Glaeser, an economist, argues that clusters of clever workers themselves enhance productivity. Such clusters give firms a useful advantage in a productivity-obsessed, cost-conscious world. And in tighter labour markets, firms are more eager to snap up talent while they can. But with conditions improving for those who were never that badly affected to begin with, new hiring is less likely to lead to a surge of fresh optimism.

A manufacturing turnaround is not lifting spirits either. In some respects the Midwest's economy looks perky. Regional manufacturing output in November was up 7.9% from a year earlier, compared with 6.0% for America as a whole, according to the Chicago Federal Reserve's Midwest Manufacturing Index. The steel and car industries led the way, up 18% and 6.1% respectively, thanks to a 13% rise in vehicle sales over the year.

But an uptick in output does not augur prosperity. Rustbelt states bled jobs in the downturn. In Ohio, manufacturing employment in 2009 was 66% of its level in 2001. The situation in Michigan is even worse. Between 2001 and 2009, 44% of the state's private manufacturing jobs disappeared. Michigan's unemployment rate has dropped in recent months, thanks to the addition of 10,000 jobs in durable-goods manufacturing. But it is still 120,000 jobs short of the number working in that sector in 2007, and nearly 400,000 jobs shy of the level in 2000. A turnaround in manufacturing has added jobs, but in places already so battered by recession that the gains scarcely register in the public mind. For now, too much of America does not feel that the recovery is real.

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The size of the states

# If they were countries

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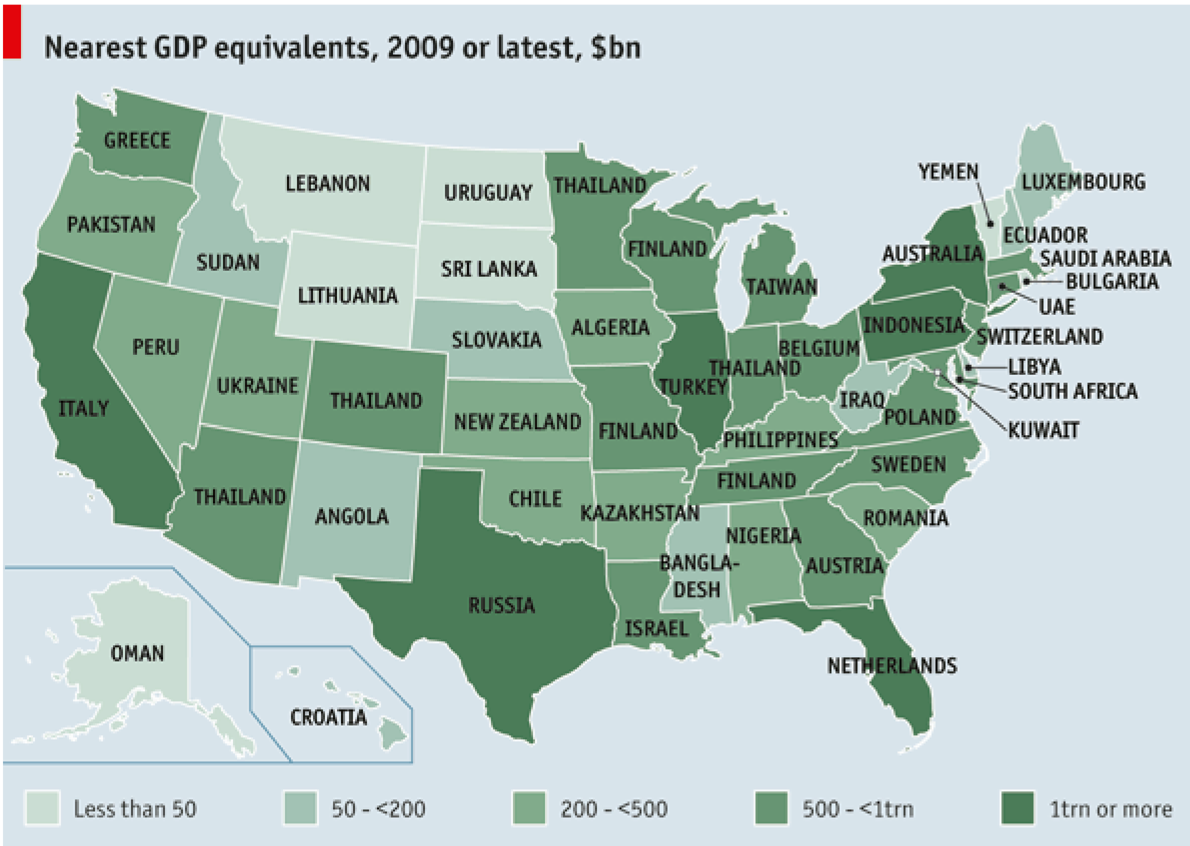


It has long been true that California on its own would rank as one of the biggest economies in the world. At present it would rank 8th, falling between Italy and Brazil on a nominal exchange-rate basis. But how do other American states compare with other countries? Taking the nearest equivalent country from 2009 data reveals some surprises. Who would have thought that despite years of car-industry hardship, Michigan's economy is about the same size as the whole of Taiwan's

**The interactive version of this map includes population, as well as GDP, equivalents**

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Old blood in the White House

# Return of the Clintonistas

Jan 13th 2011 | *WASHINGTON, DC* | from PRINT EDITION

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**The president appoints a new top team**

AS THE White House girds itself for battle with the new Republican majority in the House of Representatives, it is drafting some fresh recruits. On January 10th David Plouffe, the manager of Barack Obama's presidential campaign, reported for duty as an adviser. He was joined two days later by William Daley, Mr Obama's new chief of staff. The president has also filled several vacancies in his economic team, most notably by appointing Gene Sperling as head of the National Economic Council, a co-ordinating body for policy. He will soon have to find a new press secretary, too, to replace Robert Gibbs, who has announced that he will step down in early February.

The media has pored over all these changes in search of hints about how the president will respond to the Democrats' defeat in last year's election. There are some common strands. Both Messrs Daley and Sperling are seen as political moderates, whose ascent will be especially pleasing to the business world. Both, after all, have worked for investment banks.

That, of course, has annoyed the left. As one wag quipped, the two appointments represent both ends of the spectrum: JPMorgan Chase, where Mr Daley worked, and Goldman Sachs, to which Mr Sperling was a consultant. MoveOn.org, a left-wing pressure group, complained that the choice of Mr Daley "sends the wrong message to the American people".

But Mr Obama may not have intended to send a message of any sort. Two other things that Messrs Daley and Sperling have in common are long experience of the sort of work they are being called on to do and a reputation for excelling at it. Mr Sperling has already served as director of the NEC for four years, during the presidency of Bill Clinton. Mr Daley also worked for Mr Clinton, first as liaison with Congress on trade policy, and then as secretary of commerce.

Both have had to work with a hostile Congress before, and seem to command some respect among Republicans. Mr Sperling helped Mr Clinton cut the deficit, something Mr Obama wants to do too. In the Clinton administration, Mr Daley was instrumental in securing congressional approval for the North American Free-Trade Agreement, and Mr Obama has said that trade is an area in which he might be able to find common ground with the Republicans. In short, both appointments look pragmatic-although that in itself could be construed as symbolism of a sort.

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Lexington

# Beyond the water's edge

Jan 13th 2011 | from PRINT EDITION

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**How the Republican House will interfere with Barack Obama's conduct of foreign policy**


HILLARY CLINTON was on tour in the Middle East this week. Among other things, the secretary of state popped in on Yemen and criticised Israel's demolition of Shepherd's Hotel in Palestinian East Jerusalem. Joe Biden, the vice-president, was meanwhile in Kabul, where he assured Hamid Karzai, Afghanistan's testy president, that it was not America's intention "to govern or nation-build". In short, the Obama administration was conducting its foreign business as usual, despite the arrival of a Republican majority in the House of Representatives. That is fitting. Convention holds that politics stops at the water's edge. And isn't it the president rather than Congress who runs foreign policy?

Well, yes-up to a point. The Republican House is not planning to throw the gears of foreign policy into reverse, as it is in domestic policy. Nonetheless, there will be a change. It is, after all, Congress that doles out the taxpayers' money, for foreign policy as for everything else, and to Republican leaders who say they are seeking $100 billion in budget savings, foreign policy can look expensive. True, the sharp end of American superpowerdom is safe enough under the Republicans.

Buck McKeon, the new chairman of the House Armed Services Committee, was "deeply concerned" to learn that Robert Gates, Barack Obama's (Republican) defence secretary, thought he could make $78 billion in additional savings at the Pentagon over the next five years, on top of those already planned. But the Republicans' zeal for defence simply makes spending on soft power all the more vulnerable.

America does not spend a big share of its budget on soft power. The trouble is that voters think it does. According to a recent poll, the average American is under the misapprehension that about 25% of the budget goes on foreign aid. The true number is around 1%. But since it is perceptions that matter in politics, the international-affairs budget of the State Department, the programme under which foreign aid falls, is bound to suffer. The impact on foreign policy will depend on the size of the cuts and where they fall, questions the Republican House and Democratic Senate are still far from deciding. In principle, Congress could pick a number and leave the executive branch to choose what to cut, but that would be to take the notion of the president's prerogatives in foreign policy too seriously. The newly empowered Republicans have strong views about which causes are deserving (Israel is one) and which are not (watch out, Pakistan).

Even where the parties do share broad aims in foreign policy, the gloss of bipartisanship tends to dissolve on closer scrutiny. One example: although the Republicans are relatively happy to support military operations in Iraq and Afghanistan, they may choose not to support the State Department's associated spending on civilian institutions there. Another: oozing frugality, Darrell Issa, the new chairman of the House oversight committee, intends to investigate corruption in Afghanistan, even though this is certain to deepen the misgivings of the American public and infuriate Mr Karzai. A third: both parties are determined to act against Iran's nuclear programme, but a Republican House may push harder for tougher sanctions, even if they alienate China and the other allies whose hard-won co-operation Mr Obama considers essential to his Iran policy's success.

There is even tension of a sort over Israel, a bipartisan cause if ever there was one. Eric Cantor, now the House majority leader, has mooted transferring Israel's aid from the State Department to the Pentagon, because it would be safe there from foreign-aid cuts. That worries Democrats who want a broader foreign-aid programme to survive. The new pro-Israeli chairman of the House Foreign Affairs Committee, Florida's Ileana Ros-Lehtinen, may be no more pro-Israeli than Howard Berman, the pro-Israeli Democrat she succeeds (though she has received campaign contributions from Irving Moskowitz, the Florida developer behind the Jerusalem hotel demolition that so rankled Mrs Clinton this week). But she could prove to be more hostile than Mr Berman was to the money America gives to the Palestinian Authority and UN Relief and Works Agency (which helps Palestinian refugees) in order to improve the quality of Palestinian life and keep Mahmoud Abbas, the Palestinian president, in America's camp.

**The shadow of 2012**

For all these reasons, the battle of the budget will twist aspects of Mr Obama's foreign policy in directions in which he would prefer it not to go. That will be a nuisance. Here, though, is a consoling thought for the president. The Republicans have a few difficulties of their own on the foreign-policy front-and these are soon going to be a lot more than a nuisance to them.

Voters know where Mr Obama stands on foreign policy. But in the coming months, the Republican presidential candidates for 2012 will have to show where they stand. The snag is that Republicans are unusually divided on foreign policy right now. They are, for example, divided on arms control. Mitt Romney, a front-runner for the nomination, opposed ratifying the New START nuclear treaty with Russia, but party discipline collapsed in the lame-duck session of Congress last month, giving Mr Obama the votes he needed in the Senate. And they are divided on the Afghan war. Though many Republicans, such as John McCain, are more hawkish than Democrats, a poll this week, commissioned by the Afghanistan Study Group, found that two out of three conservative voters favoured reducing troop numbers or beginning to leave altogether. At one end of the party are some undaunted neocons, keen still to slay monsters across the seas. At another are tea-partiers wary of overreach. With all eyes on the economy, Republicans could fight the mid-terms last year without worrying about their disunity on foreign affairs. Presidential elections, though, are more demanding.

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Latin America's economies

# Waging the currency war

Jan 13th 2011 | from PRINT EDITION

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**Strong economies, soaring currencies and rising inflation have brought a dilemma for policymakers. Some are reaching for unorthodox tools**


HAVING quickly shaken off the world recession, many countries in Latin America are prospering again. The region's economies grew by an average of 6% last year, according to a preliminary estimate from the United Nations Economic Commission for Latin America and the Caribbean. This strong performance, linked in large part to the global commodity boom, has attracted big inflows of foreign cash. With that has come a familiar problem: the region's currencies have soared in value against the dollar (see chart), making life uncomfortable for Latin American manufacturers. They find themselves priced out of export markets or struggling to compete with cheap imports. Worried governments are launching a battery of measures to try to restrain the value of their currencies. Will they work?


This month alone Chile announced it would buy $12 billion of foreign reserves in 2011 and Brazil began requiring its banks to cover 60% of their bets against the dollar with deposits at the Central Bank that will attract no interest. Peru is buying dollars, too, and similarly extended reserve requirements for banks' sales of foreign exchange. Central banks in Mexico and Colombia are intervening to buy dollars. Chile's announcement prompted an immediate fall in the peso, and other currencies have temporarily stabilised, but there is no guarantee that these measures will be effective in the medium term.

In part, stronger currencies reflect Latin America's stronger economies. The commodity boom plays to the region's comparative advantage: China and India are gobbling up Brazilian soyabeans and iron ore, Chilean copper and Peruvian silver. Brazil and Colombia have both made big oil discoveries. These countries all have fairly sound economic policies, and their financial systems are deepening. With money cheap and returns poor in the rich world, Latin America has become a tempting destination for investors. Guido Mantega, Brazil's finance minister, has blamed the real's strength and his country's rising import bill both on loose monetary policy in the United States and China's refusal to allow the yuan to appreciate.

But this is becoming too much of a good thing. The real has appreciated by 38% against the dollar over the past two years, for example. Overall, Latin America posted a current-account surplus of 1.6% of GDP in 2006; this year it is likely to post a deficit of similar magnitude, according to the IMF. There are other signs of overheating: inflation for non-tradable products in Chile is 6.4% and Brazilian wages are increasing at double-digit rates.

Affected businesses are howling. Chile's wineries need an exchange rate of 530 pesos to the dollar (at the start of this month it was at 464) to be profitable, according to Rene Merino, who represents the industry. In Brazil, Sao Paulo's industrialists' association claims that "excessive imports" of consumer goods have led to a "dizzying process of deindustrialisation", costing 46,000 manufacturing jobs and $10 billion in lost output in the first nine months of 2010.

Uncomfortably strong currencies and overheating economies pose an excruciating dilemma for policymakers. If central bankers raise interest rates to curb inflation, they risk driving up the currency further. But if their interventions in the foreign-exchange market drive the currency down, that may boost inflation.

In Brazil overheating has been aggravated by official tardiness in withdrawing the fiscal stimulus applied during the recession. Brazil's new government has said it will curb its fiscal deficit, though many economists are sceptical as to how deep budget cuts will go. Mr Mantega now accepts that expansionary fiscal policy has helped drive up interest rates and the currency, something he previously denied.

To ease the pressure on currencies, governments are shifting some of their assets abroad. Colombia has urged Ecopetrol, its state oil company, to refrain from repatriating its international profits. Peru's Congress is considering a bill that would raise the cap on foreign investment by pension funds, from 30% to 50% of their assets. Brazil recently authorised its sovereign-wealth fund to trade currency derivatives.

They are also reaching for less orthodox tools. Brazil introduced a 2% tax on the purchase of bonds by foreigners last year, and then raised it to 6%. Colombia and Peru both tax interest payments to non-residents. Colombia is considering whether to reintroduce a measure to require foreign buyers to deposit 30% of the price of their financial investments in the country for a year at its central bank with no interest.

Measuring the effectiveness of these tools is hard, since nobody can know what the exchange rate would be in their absence. Bankers worry that they might work too well. "Be careful what you wish for," says Marcelo Carvalho, an economist at BNP Paribas in Sao Paulo. "If you try too hard to scare investment away, you might succeed." Reforms, often neglected, of taxes, infrastructure, red tape and labour laws would help manufacturers compete. Nevertheless, trying to scoop the froth from the commodity boom looks justified in the struggle to ensure more balanced long-term growth.

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Vancouver's Olympic hangover

# Up False Creek

Jan 13th 2011 | *VANCOUVER* | from PRINT EDITION

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**The cost of a property deal gone sour**

ELEVEN months ago there was dancing in the streets of Vancouver, as Canadian athletes wound up the winter Olympic games with a record 14 gold medals. Today, true to Olympic tradition, the host city is dealing with a nasty financial

hangover. It could have been much worse, and in other Olympic cities often has been. The Vancouver organising committee balanced its C$1.9 billion ($1.9 billion) budget for running the games. At least another C$4 billion was spent on building sports venues and a fast rail line from the airport to downtown Vancouver, expanding the highway to Whistler and providing security. Since this left some useful infrastructure and its cost was split between the federal, provincial and municipal governments, most British Columbians are content. But Vancouver's taxpayers are unhappy that their city government faces the possibility of a big loss on the Olympic village.

Before the games the city became the main lender for the village, when the project's developer ran into trouble because of the credit crunch. Officials hoped they were backing what would become one of the greenest, most attractive residential neighbourhoods in North America. A year on, the village's 16 buildings (renamed Millennium Water) form a near-empty ghost town on the waterfront of False Creek. Fewer than half of the 737 flats have found buyers (an additional 371 are social or rented housing), and the developer has failed to make loan payments. With the debt now standing at C$743m, the city has pushed the project into receivership.

The village was the first phase in the planned redevelopment of a former industrial site. Well-designed and on a prime waterfront site in the heart of the city, it should have been a commercial success. That it was not is partly the fault of the city council itself: wrangles about social housing delayed the launch; the failure to decontaminate the site and changes to building specifications drove up costs; and the city's retention of rights over the land precluded financing by Canadian banks, causing the developer to borrow more expensively from a New York hedge fund. It was when that loan went sour that the city stepped in with financing. But a bigger drawback was the property boom of the mid-2000s: this prompted the developer to bid too high for the site, causing it to price many of the flats at well over C$1m each. And then recession struck.

A fresh attempt to market the flats at lower prices will start next month. By putting the project into receivership, the city expects to restrict its losses to C$100m and might break even, according to Penny Ballem, the city manager. And it plans to press on with developing the rest of the False Creek site. But some on the city council worry that this effort to control the Olympic damage may not save them from defeat at an election in November.

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Floods in Brazil and Colombia

# Inundated

Jan 13th 2011 | from PRINT EDITION

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**Torrential rain prompts tragedy, and a need for prevention**

When the mountains move in Rio

IN THE state of Rio de Janeiro in Brazil this week the rains were sudden and torrential. In Colombia they have been relentless, lasting months. In both countries they been far more lethal than the more publicised flooding in Australia see article). They have left survivors and authorities with an expensive job of rebuilding-and the more elusive one of trying to prevent such tragedies from happening again.

In Brazil the forested mountains behind Rio de Janeiro received a third more rain in just 24 hours than in the whole of last January. The downpours dislodged hillsides which enveloped houses, hotels, roads and churches in a sea of mud in the resort towns of Teresopolis, Nova Friburgo and Petropolis, killing at least 270 people. Earlier 13 people were killed in flooding in Sao Paulo state.

In Colombia months of heavy rain have caused widespread flooding, killing at least 312 people in the worst natural disaster in the country's history. Hundreds of thousands are homeless and some 2.2m have suffered damage to their homes or property. Many main roads are in ruins, bridges and dykes have collapsed and some of the country's most productive agricultural areas have become marshland. The government reckons that aiding the victims and rebuilding will cost about $6.6 billion.

The disaster has obliged Juan Manuel Santos, the president since August, to bring forward ambitious plans to upgrade Colombia's transport infrastructure and to organise a drive to build 1m low-cost homes. Mr Santos has declared a state of emergency. This has allowed him to lower the threshold for payment of a wealth tax and to order the sale of up to 10% of the shares in Ecopetrol, the national oil company. Those measures alone should raise around $10.6 billion over four years for rebuilding.

Officials say in doing so they hope to remedy vulnerabilities, such as roads that run across fault lines and villages built on unstable hillsides. With torrential rainfall becoming more frequent across South America, such preventive measures are essential. But they are easier said than done.

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Wary detente between China and America

## Another go at being friends

Jan 13th 2011 | *BEIJING* | from PRINT EDITION

**A troubled year gives way to handshakes, but tensions between the United States and China are likely to grow**


CHINA'S President Hu Jintao arrives in America on January 18th for a welcome at the White House, full of pomp and pageantry, that American presidents seldom lay on even for the closest of friends. After an unusually rocky year in their relations, both China and the United States hope for respite. But mutual wariness is growing, thanks not least to China's hawkish army.

The role in Chinese policymaking of the People's Liberation Army (PLA, which includes the navy and air force) is only dimly understood by outsiders. But the PLA is clearly far less eager than the civilian leadership to mix with America. It needed persuading to acquiesce to a visit to Beijing by America's defence secretary, Robert Gates, from January 9th to 12th, his first to the country in three years.

China's leaders apparently hoped that Mr Gates's trip would help restore a semblance of normality to the two countries' ties as Mr Hu prepared for his American visit. Mr Hu is no America-lover himself, but like his predecessor, Jiang Zemin, he enjoys being received by the superpower with full ceremonial honours. When Mr Hu last went to Washington, DC, in 2006, China called it a state visit but the White House called it an official one, implying a slightly lesser grade. This time both agree it is a state one, which means all the razzmatazz of a dinner at the White House.

Allowing Mr Gates to visit at all was a concession. China had cut off top-level military exchanges with America in January 2010, in response to Barack Obama's approval of $6.4 billion of arms sales to Taiwan. Mr Gates had hoped to visit China last June. After being rebuffed, he said he was "disappointed" that the PLA had "not seen the same potential benefits from this kind of military-to-military relationship" as the country's civilian leaders.

Despite China's increasingly assertive military posture in the western Pacific, a region where America's armed forces have long held sway, communication between the two sides is minimal at the best of times. During Mr Gates's last visit to Beijing, his hosts agreed to set up a hotline between the Pentagon and China's defence ministry. In 2009 it proved useless when tempers flared over a standoff between Chinese boats and an American surveillance vessel in the South China Sea.

Just as worryingly, communication between China's leadership and the PLA appeared to Americans to be faulty, of which a striking indication came while Mr Gates was in Beijing. During a meeting with Mr Hu, Mr Gates mentioned the test flight earlier in the day of a Chinese stealth fighter, the J-20, China's first aircraft supposed to evade radar. Speculation about progress on the highly secretive project has intensified with the appearance online of photographs of a J-20 at an airfield. The flight on January 11th, video of which appeared on unofficial websites, was the first ever reported. But Mr Hu and other officials in the room appeared to be unaware of it, a Pentagon official claims.

If so, an interpretation is that this was a slap to Mr Hu, who as chairman of the Communist Party's Central Military Commission is supposed to be in charge of the armed forces. Mr Gates said later he had had "concerns over time" about the PLA acting independently of the political leadership. All the more important, he said, to set up a security-related dialogue between the two countries involving both civilian and military officials.

Mr Gates wants a regular forum at which the two sides discuss issues such as nuclear weapons, missile defence, cyber-warfare and space. The Chinese show polite interest, but have given no commitment. Michael Swaine of the Carnegie Endowment for International Peace says such talks are not bound to take place; the two countries' armed forces are growing "increasingly suspicious" of one another.

A chief Pentagon concern is China's development and purchase of missiles making it more difficult for American aircraft carriers to operate in the western Pacific. The missiles include the DF-21D, a medium-range ballistic missile. In December the head of the United States Pacific Command, Admiral Robert Willard, said that the DF-21D had reached "initial operating capability". The weapon would use data fed by satellites and other surveillance devices to home in on a moving carrier more than 1,500km (930 miles) offshore. Pentagon officials say work on the DF-21D (which would be the first such missile deployed by any army) and the J-20 fighter has progressed faster than they had expected. China is also reportedly close to deploying its first aircraft carrier, a refitted ex-Soviet ship. It may be a long time before any of these can challenge America's military domination of the Pacific, but they may constrain what the United States can do in waters around China-and Taiwan.

Of the three developments, the DF-21D is the greatest worry to the Americans. Their Aegis missile defence system, deployed to protect American carrier groups, is designed to track a missile's trajectory from launch. The DF-21D is supposed to be able to change course in mid-flight so as to evade Aegis interceptors. Lockheed Martin, which makes the Aegis system, is trying to come up with a fix. As for the J-20, some scepticism is in order. Although the design has stealth characteristics, its large nose canards, big engine intakes and fixed-thrust nozzles suggest the Chinese have a long way to go before they have a plane that is close to America's F-22-call them the PLA's "three shames".

In America Mr Hu will be at China's usual pains to stress it wants only peace. He will highlight China's "soft power", a concept he began publicly embracing in 2007. Mr Hu plans to visit a Chinese-owned factory making car parts and a school where Chinese is taught with support from China. Yet any cheer Mr Hu generates between the two governments could prove short-lived. Qu Xing of the China Institute of International Studies says the visit will mark the end of a downturn in relations. But, he says, unless America learns to respect China's "core interests", another will surely come.

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Urban decline in Japan

## The alarm bells of Nagasaki

Jan 13th 2011 | *NAGASAKI* | from PRINT EDITION

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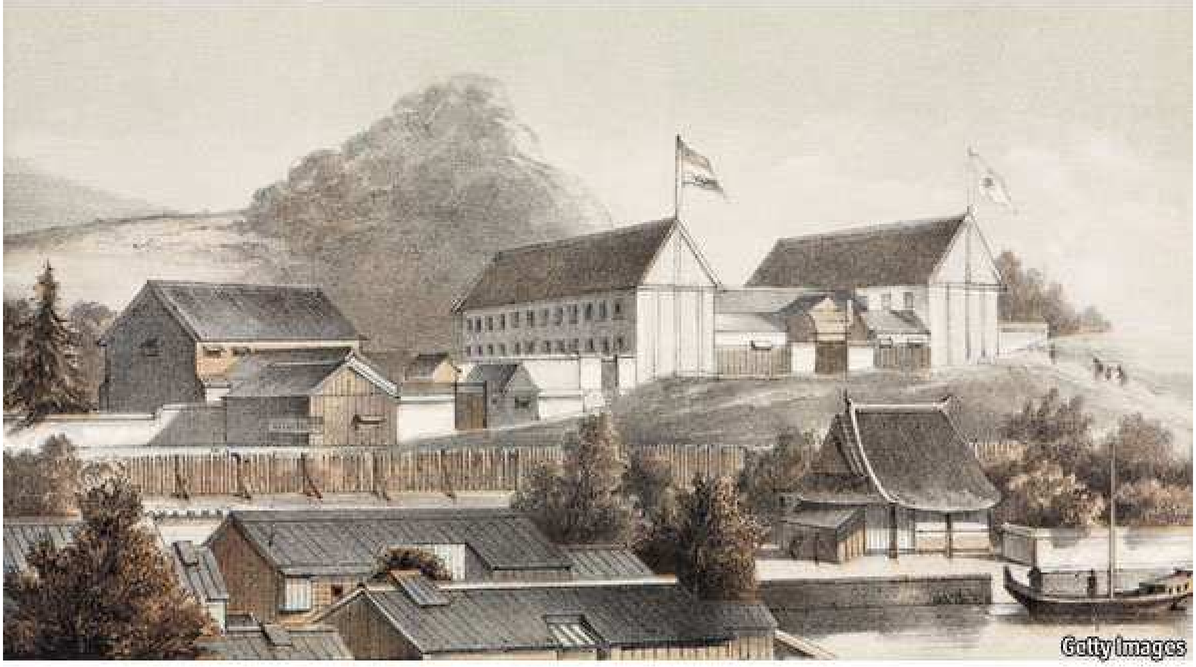
**Japan's "window on the world" is now a window on what ails the country**



When the view was better

AT 60, Hiroshi Ikeguchi wryly describes himself as one of the youngest in his district. He has lived his whole life in Irifune, just above the Mitsubishi Heavy Industries shipyard. But like his ageing neighbours, the Nagasaki suburb is collapsing around him. A dozen houses have been left to rot after their owners have died. Some are piles of timber; in others, katsura trees grow through the roofs. Outside one is a new year's offering of fruit left by a neighbour who still laments how the death of the "kind old lady" who lived there went undiscovered for a week. Peer through the letterbox, and in the gloom you see a calendar pinned to the wall. The date is September 1988.

In Mr Ikeguchi's youth, when Nagasaki was rebuilding itself after nuclear devastation in 1945, the streets near his house rang with the sound of shipwrights walking to the Mitsubishi yard each morning. Now Nagasaki's economy has gone still. The port city's fortunes show how three forces sapping Japan's energies-depopulation, overcentralisation and foreign competition-are hurting not just rural backwaters but once-prosperous cities on Japan's fringe. The phenomenon remains partly hidden. Residents of luxury apartments across the bay complain about Irifune's shabby appearance. If only they knew, Mr Ikeguchi says, how bad it really is.

Nagasaki's troubles are self-reinforcing, argues Takamitsu Sato, president of the Nagasaki Economic Research Institute. Since the 1960s a brain drain has sucked people towards Osaka and Tokyo. Young people who left to find jobs elsewhere never came back. Even now, seven in ten college students leave to study, and over half of young people find jobs elsewhere.

The brain drain reinforces a demographic trend. The prefecture's working-age population has shrunk from over 1m in 1990 to 874,000 in 2008, a result both of the exodus and a declining birth rate. The city of 1.45m is shrinking and ageing so fast that one of Nagasaki's main department stores, Tamaya, has closed down its children's department and stocked up on undergarments and hearing aids. With shrinking investment, and fewer jobs and young families, new house-building has fallen by half in the past ten years.

So now Nagasaki's living standards are falling too, a shock in a country where economists said that individuals could be better off even if the overall economy shrank in size. Mr Sato's institute reckons that if today's trends continue, GDP per person will fall from Â¥3.26m ($28,000) in 2007 to Â¥3.14m by 2020. Everything, he says, is going downward.

Can Nagasaki pull out of the spiral? Historically, after all, the city is Japan's most open, allowing in Dutch and Chinese merchants in the 17th-19th centuries when foreign trade with the rest of the country was banned. Nagasaki is one of the closest cities to China and South Korea, with opportunities for tourism and trade. The museum to the atom bomb and its victims is world famous. Nagasaki is the birthplace of Japanese Christianity. It was a cradle of insurrection against the last shogunate, helping to shove Japan into the modern age with the Meiji Restoration of 1868.

To reverse the decline, Mr Sato has drawn up a plan with local officials that looks for overseas revenues to make up for falling domestic ones. That is hardly revolutionary. Among the goals are doubling numbers of foreign students, to 3,000; turning the shipyard into a tourist site; and bolstering sales of *kamaboko*, a rubbery fishcake. But asked about bolder measures such as encouraging foreign investment and skilled immigrants, Mr Sato says there is "not the right environment" for that yet.

Meanwhile, Nagasaki's once-mighty shipping industry has been keelhauled by South Korean and Chinese yards with lower costs and quicker thinking. And Mr Ikeguchi says that even modest government initiatives, like demolishing abandoned houses in Irifune to attract newcomers, take years to grind through city hall.

Like the elders of Nagasaki, the prime minister, Naoto Kan, realises that Japan must look abroad since its own markets are shrinking. At the start of 2011, he declared (143 years after the fact, some might say) that this was the "first year of opening Japan to the outside world" in the modern era. Nagasaki is a good example of why action needs to be swift and bold.

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Australia's floods

# Raging waters

Jan 13th 2011 | *SYDNEY* | from PRINT EDITION

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**Brisbane is under water, and the Queensland boom suspended**

REUTERS

A WALL of water charged through Toowoomba, a city in south-east Queensland, on January 10th, sweeping unsuspecting people before it. Two days later the floods had reached Brisbane, the state capital and, with a population of 2m, Australia's third-biggest city. The waters swamped low-lying suburbs, tore ferries from their moorings and cars from their parking bays, and turned Brisbane's business district into a ghost town. With 15 dead and about 60 missing, and thousands evacuated from homes and businesses, Anna Bligh, Queensland's premier, pronounced the floods the worst natural disaster in state history.

Since November Queensland has been lashed by rains from La NiÃ±a, a phenomenon associated with a pattern of low temperatures in the central Pacific. After new-year floods devastated Rockhampton, a coastal city north of Brisbane, authorities hoped the worst had passed. But another burst of torrential rain in the Lockyer Valley, a market-gardening region behind Brisbane, and the Bremer River, at the city of Ipswich, sent water pouring into the Brisbane River that runs through the capital.

After Brisbane's last big flood in 1974, authorities built the Wivenhoe dam to the west of the city in hope of deterring another one. But since then Brisbane's population has nearly doubled, increasing the impact of floods. What is more, the dam is now full and has become part of the problem. Engineers have been forced to release water downstream. With cruel

irony, the overflow has helped to burst the river's banks in the city. The Brisbane River's height peaked on January 13th at 4.5 metres, mercifully below 1974 levels.

The economic impact is likely to be harsh, on best guesses cutting Australian growth this year by up to 1%. Queensland, like Western Australia, had been enjoying a boom, fuelled by commodities. It accounts for three-fifths of Australia's black-coal exports. Many mines have now been flooded, and railway lines ruined. Sugar cane and cotton, two other big commodities, have been badly hit. The prime minister, Julia Gillard, has promised any money needed to help rebuild Queensland's infrastructure. Yet she also insists that her pre-flood pledge to bring the federal budget into surplus by 2012-13 still stands. Like the Wivenhoe dam, something may have to give.

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Pakistan's fight against the Taliban

# The crumbling centre

Jan 13th 2011 | from PRINT EDITION

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**Pakistan's religious mainstream makes common cause with militants**

THE assassination on January 4th of Salman Taseer by Malik Mumtaz Qadri, a commando in his security detail, contained a chilling message: the Barelvi sect of Islam has become a militant new force in Pakistani politics. Most Pakistanis are Barelvis. They have traditionally disavowed violence, followed the peaceful Sufi traditions of the subcontinent, and paid homage to scores of saints, big and small, at tombs across the country.

Mr Qadri is also a Barelvi. But when he determined to "punish" Mr Taseer for supposedly committing blasphemy-the governor of Punjab province had campaigned against Pakistan's blasphemy law-Mr Qadri seems to have been influenced by the rise of firebrand Barelvi mullahs calling for all blasphemers (on their definition) to be killed. After Mr Qadri's arrest, Barelvis marched in their thousands, along with co-religionists of other sects, parties and persuasions, shouting "death to blasphemers". Lawyers showered rose petals on the murderer, and the policemen guarding him have uploaded approving videos of him on YouTube. A full-blown, all-party religious revival has erupted, a disturbing turn for both state and society.

The Taliban-who hail from the hardline Deobandi sect of Islam, close to the Wahhabism espoused by Osama bin Laden-have stoked the mainstream resurgence. Facing defeat by Pakistan's army in the tribal areas of the north-west, the Taliban struck urban targets, including police stations and the army's general headquarters. When the government persuaded Barelvi mullahs to condemn suicide-bombings as "unIslamic", the Taliban assassinated them and bombed their mosques and Sufi shrines.

Yet the trauma has made the Barelvi leaders more militant, not less. The anti-blasphemy bandwagon makes common cause with the Taliban. Other groups have sensed an opportunity for an Islamic political revival, including non-Taliban Deobandi and Wahhabi groups. Two such groupings play a critical role in Pakistani politics.

The Jamiat i Ulema e Islam (JUI), a Deobandi outfit, is led by a pragmatist, Maulana Fazal ur Rehman. The JUI contests elections in the tribal areas, and is a coalition partner of the ruling Pakistan People's Party. But Mr Rehman must heed hardliners inclined to abandon parliamentary politics and switch loyalties to the Taliban. So the JUI is against the "war on terror" because it is an "American" war. It has also condemned Mr Taseer.

The other grouping represents Lashkar-e-Taiba, notorious anti-India jihadists. The organisation is banned, but "charities" front for it. Both groupings hate America, retain close links with the ISI, Pakistan's powerful military intelligence agency, and detect Western plots behind Mr Taseer's campaign to amend the blasphemy laws.

Anti-American sentiment, in turn, provides the excuse for the government and army not to do more against the havens in North Waziristan of the Taliban, al-Qaeda and Taliban associates in the Haqqani network. The army says that, apart from being stretched by having to hold former Taliban areas and to defend its border with India, it cannot go into Waziristan

without full public backing. This week America's vice-president, Joe Biden, was in the capital, Islamabad, urging action. Pointing to a rising tide of anti-American passion, the government and army appear to have shrugged their shoulders.



Pakistan's troubled finances

# Economic blasphemy

Jan 13th 2011 | from PRINT EDITION

**In saving itself, Pakistan's government has jeopardised the economy**

ON JANUARY 3rd Pakistan's central bank began printing rupee notes carrying the signature of Shahid Kardar, who was appointed governor of the State Bank of Pakistan in September. Unfortunately inflation has robbed money of over 15% of its value in the past year, and no let-up is in sight for the new notes. It is the most visible sign of an economy slouching towards another financial crisis.

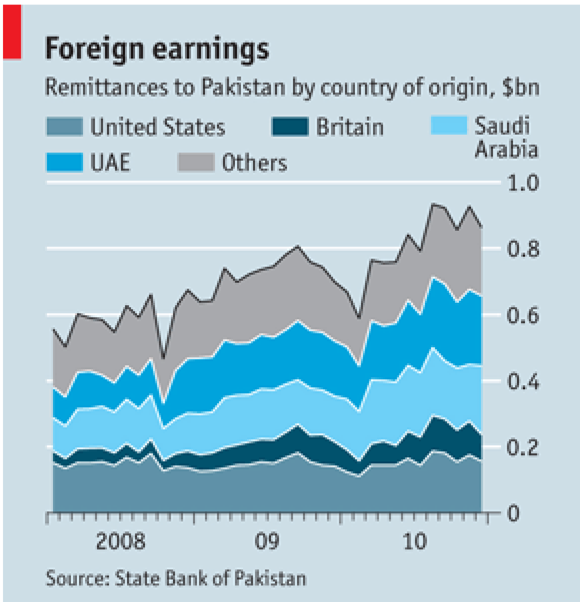
At the start of the year the government raised petrol prices, prompting the Muttahida Qaumi Movement (MQM) to quit the coalition government led by the Pakistan People's Party (PPP). It left the PPP "with a choice between saving the government and saving the economy," as Maleeha Lodhi, Pakistan's former ambassador to the United States and Britain, put it in the *News*, a Pakistani daily.

On January 6th the PPP made its choice, reversing the price rise. The decision has rescued the government but also robbed the exchequer of 5 billion rupees ($58m) a month. By the end of the fiscal year in June, the government's deficit could reach 6.5% of GDP, according to Sayem Ali of Standard Chartered bank, or even 8% if oil prices continue to rise, according to Mohsin Khan of the Peterson Institute, in Washington, DC.

Pakistan's budget has a lot to bear. The World Bank reckons that recovering from the summer's devastating floods, which damaged over 1.6m homes, will cost up to $10.8 billion. To date, aid has been modest. Donors have pledged just $2.1 billion, or $11 per person, compared with $363 per person promised to Haiti after its earthquake -a slightly unfair comparison perhaps.

Yet Pakistan's fiscal troubles are antediluvian. It is one of the most lightly taxed countries in the world. Fewer than a quarter of the country's firms declare any taxable revenues, and only 11 out of every 1,000 of its citizens pay tax on their incomes, according to the World Bank. As a result, tax revenues amount to a mere 10% of Pakistan's GDP.

The government had hoped to raise that ratio by broadening its sales tax, which is riddled with exemptions. Yet it lacked the heart to defy lobbies which slip through the threadbare tax net. They include exporters who escape tax on their domestic sales, as well as retailers and wholesalers who elude tax altogether. The proposed reforms also proved unpopular with the broader public, who resent paying anything to a government that gives them so little in return.




The government's failure has jeopardised its agreement with the IMF, which is withholding the remaining $3.5 billion of the bail-out funds it offered back in 2008. At that time, the rupee was tumbling and Pakistan's foreign-exchange reserves barely covered three weeks' worth of imports. If the country is not yet in similar trouble, it can thank Pakistani folk abroad, whose remittances surged by 16.8% in the second half of 2010, compared with a year earlier (see chart). This is one reason why the rupee has not sunk further, and why the central bank's reserves still cover six months' worth of imports.

Yet foreign investment has slowed to a trickle, and higher commodity prices will add to the country's import bill. Meanwhile, Pakistan's foreign debt must be serviced. The finance minister is in a pickle. If Pakistanis lose heart, too, they may quit the currency, scrambling for dollars instead. Should that happen, Pakistan's reserves will quickly vanish. And here is the big difference between 2008 and today: Pakistan has already had its IMF rescue.

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Vang Pao, Hmong leader

## The Montagnard Moses

Jan 13th 2011 | from PRINT EDITION

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**Death of the general who led the Hmong into exile**

Follow me

TO HIS followers, General Vang Pao was "the earth and the sky", a natural-born leader of the mountain-dwelling Hmong tribes of Laos who fought with the Americans during the Vietnam war. When the Pathet Lao seized power in 1975, Vang Pao led his people into exile in America, where he died on January 6th, aged 81. He never set foot again in his native Laos.

Mr Vang's guerrilla army, backed and financed by the CIA and opium sales, was a vital cog in the American war machine. His men attacked Communist forces along the Ho Chi Minh trail that snaked through north-east Laos, and rescued downed American bomber pilots. Some 35,000 Hmong died in battle.

Vang Pao's war was a secret one; Laos was officially neutral. That stopped neither North Vietnam's Communists nor the Americans nor Mr Vang. Leading his troops into battle, he was badly wounded. Yet he found time to marry several wives and was said to have fathered at least 20 children.

The Hmong picked the losing side in a conflict that spilled over into civil war in Laos. After Communist victory in 1975, tens of thousands of Hmong fled overland into Thailand, and then California and Minnesota. Vang Pao leant on his network of former spooks, soldiers and diplomats to twist arms in Washington, DC, and win help for his kinsmen.

Rag-tag Hmong rebels remain in the remote jungles of Laos. For Vang Pao, it was unfinished business. In old age he may have dreamed of a comeback. In 2007 American prosecutors accused him of plotting the overthrow of the Lao government by recruiting mercenaries to seize the capital. The charges were later dropped, and the whole case then collapsed. Asked last week about his death, Laos said it had no comment. Its Communist rulers have other matters to attend to. On January 11th Laos opened its first stock exchange. Times have changed.

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Banyan

## The importance of being insincere

Jan 13th 2011 | from PRINT EDITION

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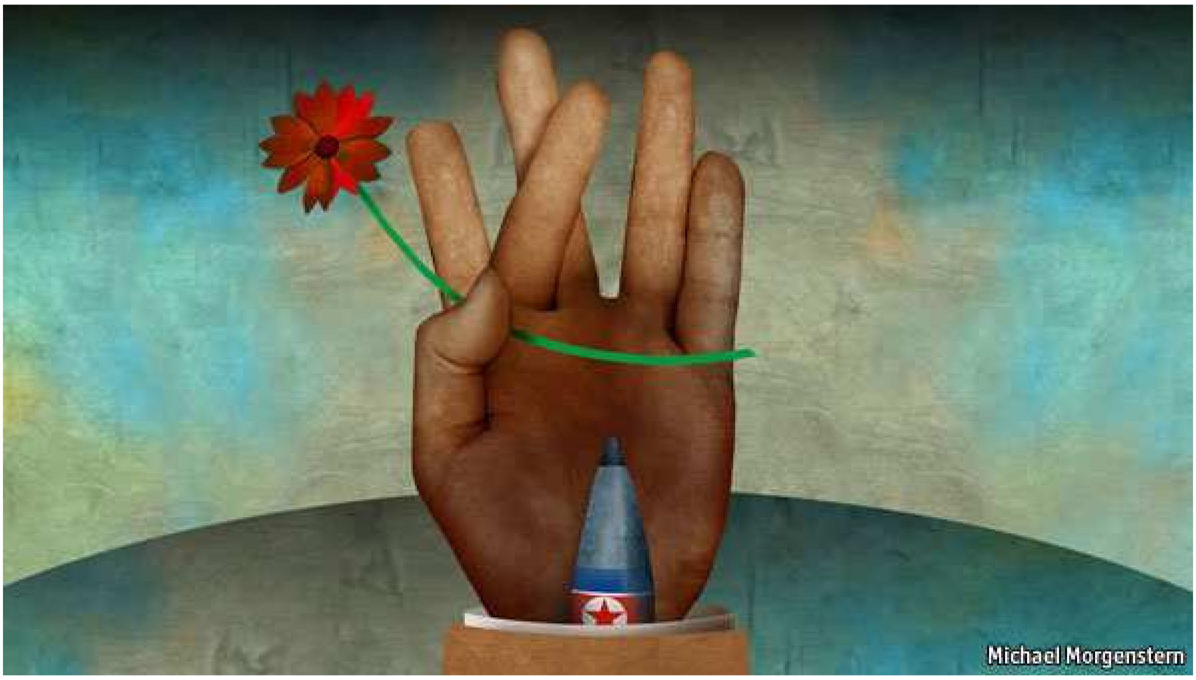
**Dealing with North Korea and its nuclear programme requires a suspension of disbelief**




FOR his new year's resolution, Kim Jong Il, despot of North Korea, is laying on the charm. His regime, prone to daily outpourings of bellicose bile and guilty in November of shelling South Korean civilians, has donned its friendly face. It is making unctuous appeals for talks with the South. This suggests that after a gap of more than two years it may be ready, as its ally China hopes, for the resumption of a six-country negotiating process aimed at getting rid of its nuclear weapons.

This is cheering compared with acts of war, but it scarcely provides grounds for optimism, for a very simple reason: it is hard to find anyone who believes North Korea has any intention of relinquishing its inchoate nuclear arsenal. And since America is never going to accept North Korea as a nuclear power, six-party talks seem pointless and doomed.

Why would North Korea disarm? Its nukes serve it well. They are a strategic deterrent, especially if-as Robert Gates, America's defence secretary, declared in Beijing this week-North Korea might within five years have ballistic missiles capable of reaching America. Its first nuclear test in 2006 did not produce the explosion it advertised, and the second, in 2009, may also have malfunctioned. And though it has enough plutonium for a few warheads, it is not known how good the North is in turning the stuff into usable weapons. Still, doubts about the size and efficacy of North Korea's arsenal do not destroy its deterrent effect.

The nuclear weapons are, inevitably, also useful bargaining chips. Even in a market where Mr Gates has said America is tired of "buying the same horse twice", North Korea has managed to shore up the nukes' declining value. Last November North Korea caught the world by surprise with its revelation of 2,000 apparently state-of-the-art centrifuges used for enriching uranium. In the words of Aidan Foster-Carter, a British academic, it has acquired a new horse-"a thoroughbred, or, at the very least, a frisky young colt." It could now, for example, offer to open some of its facilities for inspection, such as those that might be used to produce highly enriched uranium for weapons, while continuing to haggle about others.

Third, a nuclear capability is a rare achievement for a corrupt, cruel and inept regime which aspires to impress as well as terrorise its own people. It is making a big deal out of the centenary in 2012 of the birth of Mr Kim's father, Kim Il Sung, who did not let a little thing like his own death in 1994 interrupt his eternal presidency. As a birthday present, the government has rashly promised North Koreans nothing less than prosperity. Nuclear-power status is some sort of compensation for the penury and hunger they will endure instead.

None of the five other parties to the talks-America, China, Japan, Russia and South Korea-wants North Korea to have nuclear weapons. South Korea, still smarting from the shelling in November and the sinking last March of a naval corvette, this week again rejected the North's offer of talks. Rather, it demanded the North first "show sincerity about its nuclear programme and take responsible steps over its provocations." Yet South Korea has tempered its response to the North's attacks. Co-operation at the joint industrial zone at Kaesong, for example, has carried on. In the end, when it becomes politically acceptable at home, the South may have little choice but to reopen dialogue.

America, too, is inching back, first, to bilateral talks with North Korea, once South Korea has led the way, and then the six-party table. Its envoy on North Korea, Stephen Bosworth, is just back from a tour of Beijing, Seoul and Tokyo. America cannot afford to cave in to a country guilty of military provocations, terrorism and nuclear proliferation. A free pass to nuclear status for North Korea would tempt other countries to stalk out of the Nuclear Non-Proliferation Treaty, as

it did in 2003, and go rogue. America insists it will not talk for talking's sake, or "reward" North Korean misbehaviour with bribes to curtail its nuclear ambitions.

It does not, however, seem to have any better ideas. An Israeli-style surgical strike against North Korean nuclear sites could cost huge numbers of civilian lives and start a cataclysmic war. And, as those new centrifuges showed, the sites' locations are not all known anyway. Sanctions and isolation work least well against a regime that cares not a whit for its people. Meanwhile, the North enjoys a blackmailer's hold over China, which is petrified by its ally's possible implosion. China's backing, in turn, means that waiting for an implosion in the hope that a more reasonable regime might emerge is not an option. Anyway, collapse might bring chaos, all the more frightening with a few loose nukes.

That, sooner or later, means talks, with the more limited but worthy aims of containing, if not eliminating, North Korea's nuclear programme and curbing the North's potential as a proliferator. At least America has something North Korea craves: American recognition. As a Chinese official quoted in one of the WikiLeaks cables put it in 2009, America "has the key" to North Korea. (All China could do, he added disingenuously, was "apply a little oil to the lock".) Another cable describes Mongolia's abortive attempt to broker talks between America and North Korea.

**Two impossible things before breakfast**

American recognition, though, is off the table while North Korea is an illicit nuclear power. So for talks to succeed in reining in North Korea's nuclear programme, each side must believe-or pretend to believe-an impossible thing. America must pretend there is a real chance of "complete, verifiable denuclearisation". And North Korea must believe that the United States will somehow relent and recognise it without its disarming. Mutual delusion seems a nebulous basis for negotiation. But peace on the peninsula cannot bear very much reality.

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Tunisia's troubles

# No sign of an end

Jan 13th 2011 | from PRINT EDITION

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**The president imposes a curfew and sacks his interior minister. But will that save his own skin?**

JUST over a month ago few would have thought that, among the Arab world's many unstable and unpopular governments, Tunisia's would be the next to experience an uprising. The country's president, Zine el-Abidine Ben Ali, seized power in a "medical coup" against his ageing predecessor in 1987 and turned Tunisia into a police state known for its efficiency. Occasional worries about authoritarian tendencies in more relaxed North African states such as Morocco were frequently referred to as "Ben-Alisation".

Yet Mr Ben Ali is now facing a serious attempt to foment an Eastern European-style velvet revolution. Since December 17th, when a young man in the city of Sidi Bouzid set himself on fire to protest against chronic unemployment and police brutality, spontaneous protests have spread from the poor interior to more prosperous coastal cities. Police have in some cases used live ammunition to cow demonstrators. The government puts the death toll at two dozen, but opposition groups say it is several times higher.

On January 11th protests reached the centre of Tunis, the capital, and Mr Ben Ali responded by ordering in the army and imposing a night-time curfew. Unbowed, tens of thousands took to the streets next day in Sfax, Tunisia's second city. Schools and universities have been shut until further notice, a move that may only free even more young people to join the protests.

Mr Ben Ali has faced protests before, but never on this scale. For the first time since he came to power, the ubiquitous presidential portraits that adorn many buildings have been ripped down and burned, while protesters chant colourful insults aimed at Mr Ben Ali and his acquisitive wife, Leila Trabelsi.

At first Mr Ben Ali lambasted the protesters as "extremists" in the pay of unnamed foreign powers. But trying to regain control, the rhetoric of the wily president, with protesters on his very doorstep, eventually became a shade more conciliatory.

On January 10th he promised to create 300,000 jobs for unemployed graduates within two years, but gave no indication of how. He has also promised to release detainees arrested in recent weeks, though it is not clear whether the more popular figures in the protest movement, including two prominent bloggers, would be among them. A rapper calling himself El General was apparently freed. Later Hamma Hammami, a communist leader, was seized at his home for calling for a change at the top after Mr Ben Ali's latest pronouncements.

The president is proving only a little gentler with his own supporters. He has sacked his interior minister, Rafik Belhaj Kacem, who had been accused of authorising excessive force. The president also promised to investigate corrupt officials, but the protesters are unlikely to be satisfied. Their real target is not just officials with greased palms, but Mr Ben Ali himself-and his wife and her family. The business interests of the president's in-laws, known as the Trabelsi clan, extend widely across the country.

Ordinary Tunisians find this galling since many of them have had to endure years of unemployment. In a country that is close to Italy and the European Union (EU), some even go hungry.

Mr Ben Ali's attempts at conciliation are not proving enough to win over many protesters. Indeed, a growing number said they were worried that an opportunity for reform was being passed over in favour of harsher repression. Some suggested that a crackdown on bloggers who back the protests meant that the regime was panicking. Tunisian campaigners have managed to spread videos of protests uploaded from mobile phones, even though the internet is heavily censored.

Tunisia's troubles are beginning, after several weeks of silence, to worry Mr Ben Ali's allies in the West. The American government has expressed concern at the violence and declined to back Mr Ben Ali publicly, saying it is "not taking sides." The EU has called for a return of calm and urged the Tunisian government to show a lot more restraint.

In France Mr Ben Ali won the support of several cabinet ministers, which earned them the condemnation of the Socialist Party and the Greens. More controversially, Michele Alliot-Marie, the new foreign minister, who frequently holidays in Tunisia, told a stunned National Assembly that French riot police could be offered to help restore order.

It was debatable whether diplomatic pressure would persuade a reluctant regime to give citizens more freedom. But Mr Ben Ali, isolated in his presidential palace, is showing scant sign of ceding control.

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East Jerusalem

# The Shepherd's lost sheep

Jan 13th 2011 | *EAST JERUSALEM* | from PRINT EDITION

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**As Palestinians call for recognition of their state, its contours are blurring**


FEW architectural sites in East Jerusalem, the side of the city that Palestinians see as their future capital, capture the flavour of Palestine's British Mandate more acutely than the Shepherd Hotel. It was where British officers hobnobbed with Palestinian high society before the territory was partitioned in 1948. General Sir Evelyn Barker, in command of British troops under the mandate, dallied there with a celebrated Arab hostess, Katy Antonius.

But on January 9th the Israeli authorities, who argue that all of Jerusalem is theirs, and rarely license Arabs in the city to add so much as a balcony to their homes, gave the go-ahead for bulldozers to flatten a wing of the hotel to enable Jewish homes to be erected in its place. European governments sound ever more eager to assure the Palestinians they will have a state of their own, yet cannot manage to save an historic building on Palestinian land bang next to their own diplomatic missions.

Israel's prime minister, Binyamin Netanyahu, derisively calls the site just another "private house", saying it would be wrong to make certain districts of Jerusalem out of bounds for Jews. Besides, a recent poll suggests that many Palestinian residents of East Jerusalem would like to become Israeli citizens. But the new settlement to be built on the rubble forms the missing link in a tongue of land acquired by Jewish settlers that rolls down from the outer hilltops to the heart of the city's Arab part. Three years ago, an Israeli government body expropriated an adjacent olive grove for "agricultural cultivation", awarding it to Ateret Cohanim, a zealous settler group with no known farming skills.

The location means a lot in other ways. It is in East Jerusalem's diplomatic quarter, beside the British consulate and offices of European governments accredited to the Palestinian Authority (PA), which is supposed to run the emerging Palestinian state, thus highlighting foreign impotence over the erosion of Palestinian areas.

European officials in Brussels, unable to stop such actions, have charged Israel with illegality and obstructing peace. A statement by foreign ministers of the European Union (EU) even seemed to equate the recognition of Israel with that of Palestine. One inference was that, if the Palestinians failed to secure a state, Israelis might forfeit theirs too. Not so long ago Germany, racked by guilt over the Holocaust, would have rushed to quash such chidings by the EU, but no longer. The Dutch have been readier to take Israel's part but, overall, the narrative used by pro-Palestinian lobbies is becoming the

standard discourse among Europe's leading governments, Germany included. That will feed the fear in Israel that it is being "delegitimised" abroad.

Will such protests have an effect? A leaked internal report on Jerusalem approved by the EU's heads of mission recommends tougher permit requirements for Israelis who have settled on the Palestinian side of the 1967 border and who want to travel to Europe. It also says that products made in the West Bank settlements should be labelled as such, so that European shoppers can refuse to buy them. Most Palestinians want European governments to discourage investment in Israel and to impose economic sanctions on it, arguing that Europe took such steps against South Africa under apartheid.

German officials now toy with the idea of following Britain's lead in discouraging the import of produce from sources that are deemed illegal. "We say settlements are illegal, so how can we trade in illegal goods?" asks one. DB International, a subsidiary of Deutsche Bahn, a railway company owned by the German state, is under pressure to withdraw from a contract to help build the high-speed railway between Jerusalem and Tel Aviv, part of which runs through Palestinian territory, otherwise pro-boycott lobbies say they will prod Qatar into cancelling the company's deal to build a railway in the Gulf.

Yet few diplomats expect a sea change. The EU Commission has shelved its Jerusalem report without a formal discussion. The only divestment European diplomats have discussed in private is the possibility of reducing the euro1 billion ($1.3 billion) European governments and the EU give every year to the PA, on the ground that this merely makes it easier for Israel to deal with its occupation of Palestinian land.

The Palestinians are looking elsewhere. Despairing of getting a state with the co-operation of Mr Netanyahu, they are urging the UN to vote one into being instead. But there too they face a lot of sceptics. Some European countries have upgraded the status of Palestinian diplomatic missions to them, but EU foreign ministers have so far avoided copying the growing number of South American governments that now fully recognise a Palestinian state.

The Europeans say they must wait for the right moment. Hitherto some had marked the end of a two-year preparatory period, spelt out by the PA prime minister, Salam Fayyad, who set August 26th this year as the date for completion. But most Europeans now contemplate a fudge. Recognising a Palestinian state forthwith, they say, would only paint Israel into a corner, bolster its siege mentality and provoke its ruling right-wingers to gobble up more Palestinian land. And others question the sense in recognising a phantom; even the Palestinian foreign minister, Riad Malki, admits that "on the ground, [recognition] won't make any difference."

Above all the Europeans fear their credibility would be drained. Amal Nashashibi, scion of a Palestinian family whose ancestors once danced at the Shepherd Hotel, asks how foreigners can think of creating a whole state when they cannot stop Israel demolishing a house on their doorstep.

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Lebanon's tottering government

# Worse than before?

Jan 13th 2011 | *CAIRO* | from PRINT EDITION

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**The latest row in Lebanon looks as dangerous as ever**

AFTER months of teetering, Lebanon's so-called government of national unity has tumbled. Sharply polarised between pro- and anti-Western camps, fragmented among religious sects and parties, and buffeted by the influence of rival foreign meddlers, the chronically troubled little country looks set to plunge into yet another swirl of turbulence. These often end in violence, drawing in outside powers and shaking the wider region.

The resignation of 11 ministers in the 30-member cabinet prompted the collapse. The opposition, known as March 8th and led by Hizbullah, the Iran-backed Shia party-cum-militia, had gained a blocking third of cabinet posts in 2008, after bloodying the Western-backed parliamentary majority in an armed showdown.

Installed as prime minister, Saad Hariri, leader of a pro-Western front known as March 14th, then invited March 8th into a government that pepped up the economy but failed to reconcile the starkly different visions of Lebanon's identity. Mr Hariri's camp, which includes right-wing Christians, liberals and, increasingly tenuously, the Druze faction led by a suave warlord, Walid Jumblatt, prefer the notion of Lebanon as a neutral, mercantile state. Hizbullah sees the country instead as a bastion of Arab hostility to Israel.

Overwhelmingly backed by Lebanon's Shias, some 40% of the population, Hizbullah has long insisted that its powerful guerrilla force, now believed to have some 50,000 rockets supplied by Iran and Syria, is untouchable. March 14th supporters want it disarmed, and have won aid from the West, especially America, to bolster Lebanon's national army instead. Mr Hariri has avoided provoking his opponents on the arms issue. He has also placated them by trying to mend ties with Syria, severely strained after his father, Rafik, a billionaire and five-times prime minister, was assassinated in 2005. Many Lebanese blamed Syria, which had long meddled in its smaller neighbour's affairs.

Mr Hariri has proved less malleable over the UN-mandated investigation into the murder of his father and 60 others, in a spree of assassinations of March 14th figures between 2005 and 2008. As the investigation has neared the stage of issuing indictments, leaks suggest that Hizbullah people, rather than Syria, may be held responsible. The party and its allies have campaigned furiously to undermine the special tribunal, based near The Hague.

Having persuaded its own supporters that the court is a Western tool and convinced many other Lebanese that the investigation should be buried for the sake of peace, Hizbullah has tried to bully March 14th into rejecting the court's findings. Mr Hariri's refusal to do so led to a prolonged crisis that may now, as his government falls, enter a murkier phase.

Lebanon's politicians, for all their brinkmanship and legacy of violence, have in the past proved surprisingly able to pull off compromises. But this particular circle, pitting Mr Hariri's personal desire for justice against Hizbullah's millennial sense of mission, and indirectly matching American might against Iranian guile, looks hard indeed to square.

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South Sudan and the Arab world

# A plot to do down Islam

Jan 13th 2011 | *CAIRO* | from PRINT EDITION

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**Most of the Arab media are glum about the prospect of South Sudan's secession**

THROUGH the lens of the Muslim Brotherhood's slick Arabic-language website, the referendum on the future of South Sudan looks rather different from its portrayal elsewhere. The looming partition of Sudan is not, it says, the logical outcome of five decades of civil war. It is the fruition of a century-old Western ecclesiastical plot to close Islam's gateway into Africa, and the start of a plan to break other Arab countries into feeble statelets so as to grab their riches.

A Brotherhood reporter in the southern capital, Juba, says he witnessed massive fraud in the voting, so turnout will not genuinely have reached even half the 60% threshold needed to validate the poll. Another article reports a *fatwa*, signed by 60 prominent Brotherhood clerics, banning Muslims from voting for southern independence.

But not all Arab accounts of Sudan are so blinkered and shrill. Belatedly, most Arab governments and commentators have come to accept the inevitability of South Sudan's separation. Amr Moussa, who runs the 22-member Arab League, recently took his cue from Sudan's own president, Omar al-Bashir, and paid a friendly visit to Juba. Arabs, he said, would continue to support the South, whatever future its people opted for.

Neighbouring Egypt, which long sought to impede South Sudan's quest for independence ostensibly because of fears over the White Nile's headwaters, is now also currying favour with offers of educational and technical aid. Some Arab analysts have sounded more informed warnings, fretting that a truncated northern Sudan could become an Islamist police state and that the impoverished South may soon relapse into internal strife.

Still, an undercurrent of mistrust and paranoia, exacerbated by a widespread ignorance of Sudan's geography and history, tends to infuse Arabs' misunderstanding of the country. Libya's leader, Muammar Qaddafi, recently described the likely break-up of Sudan as a disease that would spread through the region. Mosque sermons in Egypt have linked Sudan's fate to sectarian strife in Iraq and to recent attacks against Egyptian Christians, as parts of a global effort to create *fitna*, or schism, in Muslim lands. But Islamists who campaign elsewhere have drawn a different lesson from Sudan's referendum. It should, they say, serve as a model for resolving the equally long dispute over India-controlled Kashmir, which should, in their view, become independent too.

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Strife in Yemen

# Jihadists fight on

Jan 13th 2011 | *SANA'A* | from PRINT EDITION

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**Yemen's campaign against militants is not succeeding, despite American help**


AFTER prayers on January 7th jihadists ambushed a military convoy near the town of Lawdar in the troubled province of Abyan some 240km (150 miles) south-east of Sana'a, the capital. They used rocket-propelled grenades and machineguns to kill at least ten soldiers. Later that day the group hit another military convoy in the same area. Two days after that masked men on motorcycles attacked a government vehicle on its way to deposit cash at a bank in Zinjibar, Abyan's capital, killing three electricity workers and a guard.

The nebulous nature of al-Qaeda's Arabian franchise makes it hard to assess the group's strategy or even to be sure which attacks it is behind, unless it publishes a claim for responsibility. But recent hit-and-run attacks on government forces and the greater care it is taking to avoid civilian casualties suggest cannier tactics, with lessons learnt from the experience of al-Qaeda branches in Iraq and Afghanistan. Like them it is trying to weaken resolve by targeting the security forces on which the government depends.

Many Yemeni jihadists want to overthrow the country's secular government and replace it with an Islamist caliphate. That is unlikely to happen soon, but the threat of it has put Yemen in the international spotlight. Since a botched Christmas bombing of an American passenger jet in 2009 by a jihadist trained in Yemen and a foiled plot to plant explosives in a cargo aircraft there last October, the United States has increased military aid from $70m in 2009 to a planned $250m this year.

Barack Obama has ruled out direct American intervention. But the country has become a testing ground for the Pentagon's counter-terror methods. American-funded units are trying to tackle jihadists in their heartland, where government control is minimal, notably in the provinces of Abyan, Shabwa and Marib.

But American aid is not always used for its intended purpose. In 2009 a Pentagon-trained counter-terrorism unit was diverted to Yemen's north to fight Houthi rebels who are not generally jihadists. Recently it was reported that boats donated by America to Yemen's coastguard were being rented out for commerce.

On January 11th America's secretary of state, Hillary Clinton, showed how worried she is about Yemen by making the first visit by a holder of her post for two decades. No doubt seeking to calm the waters after American diplomatic cables published by WikiLeaks exposed details of sometimes stormy relations with President Ali Abdullah Saleh. The leaks disclosed that he had allowed American air raids against al-Qaeda in Yemen. Mrs Clinton said that the country needed more than military aid to combat al-Qaeda and stressed the urgency of economic and political reform. For Yemen is the Middle East's poorest country, illiteracy is high and corruption rife.

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South African roads

# Watch out!

Jan 13th 2011 | *JOHANNESBURG* | from PRINT EDITION

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**South Africa's dreadful drivers are under scrutiny**


SOME of the world's most dangerous roads are South African. Last month an average of 43 people a day (in a population of 50m) were killed in traffic accidents, about the same as the previous December, despite an unprecedented police crackdown on errant motorists in the run-up to the peak summer-holiday season. The government hopes to cut the total annual road-death toll by half by 2015, using the grim tally of 16,000 in 2007 as its benchmark. Despite the planned introduction of stricter traffic laws, it will be pushed to meet its target.

Though it still has less than one registered vehicle for every five inhabitants, Africa's most advanced country recorded 33 road deaths per 100,000 inhabitants in 2007, according to the World Health Organisation. That was double the fatality rate in America, with almost one vehicle for every inhabitant, and six times the rate in Britain, with about one vehicle for every two inhabitants. All three countries have similar road-safety laws. Indeed, the drink-driving limit is stricter in South Africa than in Britain or America. But South Africans tend to ignore the law in the expectation that they either will avoid detection or can bribe their way out of trouble.

The government is keen to change such attitudes. In the past three months it has cracked down on road-safety villains, stopping and checking about 4.5m drivers at random. More than 2m fines were issued, 26,000 dud vehicles taken off the roads, and more than 7,000 motorists arrested for drunk-driving and other offences-many times the normal rate. Recent

research by South Africa's Medical Research Council showed that 61% of pedestrians and 59% of drivers killed in traffic accidents were over the legal alcohol limit.

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South African schools

# E for education

Jan 13th 2011 | *JOHANNESBURG* | from PRINT EDITION

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**Desegregation and investment have yet to boost black schoolchildren**

CONGRATULATIONS to the latest crop of school matriculants have been pouring in. Despite the enforced closure of schools throughout the football World Cup, hosted by South Africa, followed by a three-week teachers' strike, the pass rate for the 2010 school-leaving "matric" examination, taken in November, has jumped by seven percentage points to 68%, bringing an apparent end to a six-year decline. But with half of all pupils dropping out of school before taking the exam and a required pass mark of just 30-40%, it is too soon for rejoicing. Educational standards in Africa's biggest and most advanced economy remain generally dire.

Barely one in ten South African pupils qualifies for university, and only 5% end up with a degree. South Africa does particularly badly in maths and science, coming last (out of 48 countries) in a report published in 2003 by a Dutch institute called "Trends in International Maths and Science", a study of Grade 9 pupils (aged 15). Humiliated, it withdrew from the 2007 series, though it plans to take part in this year's tests. If the 2010 matric results are anything to go by, it may not do much better. Barely one in four matric candidates achieved a pass in maths and less than one in five passed physical science.

Seventeen years after the end of apartheid, black pupils still generally fare much worse than their white counterparts. In 2009 just over half of black matric candidates passed, compared with 99% of whites, 92% of Indians and 76% of coloureds (people of mixed race). Though blacks now account for nearly half of all university students (and 80% of the whole population), less than one in 20 of the relevant black age group, still facing harsh economic and social disadvantages, ends up with a degree, compared with almost half of all whites.

**The lingering legacy of apartheid**

Even though public schooling was desegregated in 1994, the vast majority of poor black children continue to go to severely deprived, overwhelmingly black schools. Two-thirds of state schools have no library or computer; 90% have no science laboratory; more than half of all pupils either have no text books or have to share them. Whites, by contrast, together with a small but growing contingent from the black middle class, send their children to the former all-white "Model C" state schools, with their far superior facilities, or, increasingly, to a private school.

Since 1994 the number of pupils attending independent schools has more than doubled to around 500,000 (4% of the total school population); six out of ten are black. Tuition fees, over a quarter subsidised by the state, range from a modest 1,600 rand ($230) to a hefty 80,000 rand a year. Many parents think it worth it. Class sizes are generally half those in state schools, the teachers are better qualified and the success rate a lot higher. More than 90% of private-school pupils can expect to get their matric, compared with just 30% of state-school pupils. The former Model C schools boast a similar success rate.

President Jacob Zuma has promised to make education his priority. Money is not the main problem: education already gobbles up about 20% of the government's budget, representing over 5% of GDP. But attitudes, particularly those of the teachers, who are heavily unionised, will have to change. Angie Motshekga, the schools minister, admits that the system is largely "in crisis" and will take 20 years to fix. Others fear it may need longer.

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German politics

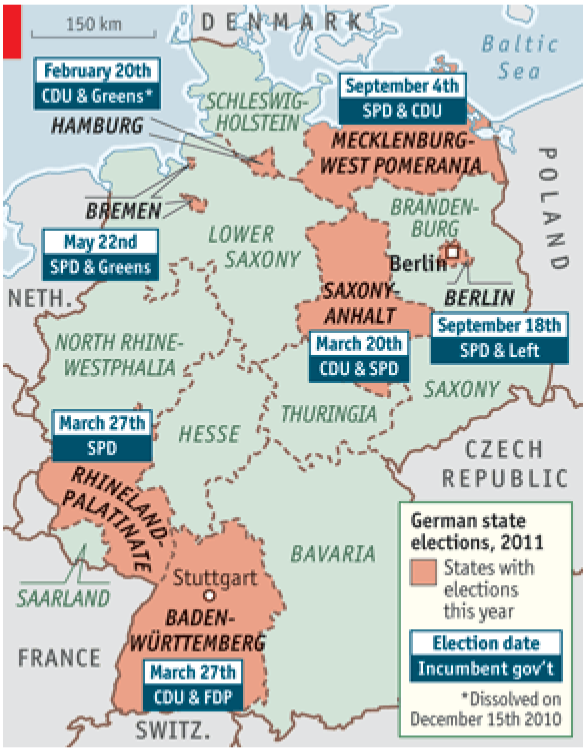
# Will the eagle crash-land?

Jan 13th 2011 | *BERLIN* | from PRINT EDITION

**Seven state elections, and the ongoing euro-zone crisis, will test Angela Merkel's government this year**


IF EUROPEAN governments were pupils sitting exams, Germany's would be the one drumming his fingers while his duller fellows struggled to finish. In competitiveness and fiscal discipline, Germany is where the stragglers want to be. After a strenuous "autumn of decisions", such as ending military conscription and extending a deadline for phasing out nuclear power, Germany plans to take it easier in 2011. It will be a year of pursuing "interim goals", says a senior official.

This does not mean that Angela Merkel, the chancellor, can look forward to tranquillity. Seven state elections will test her "Christian-liberal" coalition, consisting of her Christian Democratic Union (CDU), its smaller Bavarian sibling, the Christian Social Union (CSU), and the liberal Free Democratic Party (FDP). Despite buoyant growth-3.6% in 2010, the fastest rate since unification-and falling unemployment, the coalition would be voted out of office in a federal election, polls suggest. The other cause of unease is the euro, which threatens either to fall apart or to require yet another German-backed rescue.




Germany's state elections are not primarily verdicts on the federal government. "People vote according to regional interests," says Peter Losche, a political scientist. Losses in the states would reduce the ruling parties' weight in the Bundesrat, the upper house, but their majority has already gone, after a state election last year. Even so, polling in the provinces will cause palpitations in Berlin. The fate of Guido Westerwelle, the foreign minister and chief of the FDP, depends on whether his party can arrest its slide in the four elections to be held by the end of March. Mrs Merkel will be damaged, but probably not destroyed, if the CDU loses in Baden-Wurttemberg, which it has governed since 1953. The results will help determine how the parties position themselves for the next federal elections in 2013.

They are likely to hearten the opposition. The season starts on February 20th in Hamburg, where last year the first state-level coalition between the CDU and the Green party ended prematurely after the failure of an ambitious school reform and the mayor's subsequent resignation. A coalition of the Social Democratic Party (SPD) and the Greens looks poised to take control. The two other city-states should maintain their leftward tilt. Bremen's SPD-Green government is not in danger in May. Berlin's coalition of the SPD and the ex-communist Left Party could fall in September. Here, the Greens have a chance to seize the top position in a state-level government for the first time (unless Baden-Wurttemberg's Greens beat them to it).

The Left Party could displace the CDU as the Social Democrats' governing partner in the eastern state of Mecklenburg-West Pomerania. In nearby Saxony-Anhalt it may come top, but the SPD might continue its coalition with the CDU rather than accept a Left Party premier. More important will be what happens in two western states that vote on March 27th. In Rhineland-Palatinate, the SPD's Kurt Beck is the only premier to govern without a coalition partner. Odds are he will win re-election, this time with support from the Greens. But the CDU has an outside chance to win power.

That would not make up for losing Baden-Wurttemberg. It is the heartland of Germany's export-driven *Mittelstand* enterprises and has one of the lowest unemployment rates in the country. Yet Stefan Mappus, its premier since February, has had a rocky time. A dispute over a railway project in Stuttgart has bitterly divided the state. Mr Mappus chose an investment bank managed by a close friend to handle the state's takeover of a big electricity producer; the opposition accused him of favouritism. The CDU remains the strongest party but its coalition partner, the FDP, might not win enough votes to re-enter the legislature. That could open the door to a coalition of the SPD and the Greens, or, conceivably, the CDU and the Greens.

Mrs Merkel has shored up her defences. Last year's decision-making spurt quieted complaints that her government was adrift; arguments within the coalition have become more civil. After a slump, her personal popularity is rising. Her command over the restless CDU seems more secure. Whether that remains so will depend on the scale of the party's losses and whether their causes are perceived to be local. Greater trauma awaits the FDP, which may be so weakened that it can no longer furnish coalitions with majorities. Mrs Merkel ended a flirtation with the ascendant Greens last November, calling the idea of CDU-Green partnerships "pipe dreams". She may now revive it.

Her low-key agenda for 2011 will bring neither salvation nor doom. Much of it involves carrying through decisions she has already taken. Some fiscal savings planned by the government have yet to be secured. Military reform will require

politically ticklish choices about which installations to shut down. The volunteer army is to be complemented by a voluntary civilian service, which the government says will "redefine the relationship of the citizen to the state." The government must tweak aid for the unemployed to comply with a constitutional-court decision; that is contentious but will not much change the programme. More radical is an idea to shift financing of care of the old away from payroll taxes and towards personal savings to cope with the looming increase in their numbers.

Political setbacks could sharpen policy disputes within the coalition. The FDP is stepping up pressure for tax cuts, joined by the CSU, which is almost as nervous about its own future. Mrs Merkel and the finance minister, Wolfgang SchÃ¤uble, insist that the deficit must be cut first. The two smaller parties are at loggerheads over immigration. The business-friendly FDP wants to allow in more qualified workers to relieve a shortage of skilled labour; the CSU is opposed. But both have learnt the cost of allowing duels to become brawls.

A bigger worry for Mrs Merkel may be the rift within Europe over the fate of the euro. So far Germans have grudgingly paid the bills she has presented as the price of saving the currency. Although 62% of voters oppose further bail-outs of weak euro members, 61% support her handling of the crisis, according to a recent poll. But more sacrifice may be demanded. Along with financial support, Germany may have to yield some sovereignty to construct euro-wide economic government. The government sees little threat to Mrs Merkel's position but is bracing for resistance. Even at the top of the class, life is hard.

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France's far right

# A respectable front

Jan 13th 2011 | *PARIS* | from PRINT EDITION

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**Why Marine Le Pen makes France's politicians jumpy**

That's papa's girl

SHE may have a chic hairdo, and the modern look of a working mother. But there is still something of her father in the imposing frame, gravelly voice and flair for provocation. Is Marine Le Pen on her way to disrupting French politics, as her 82-year-old father, Jean-Marie Le Pen, has done? The results of the far-right National Front's leadership election to succeed the former paratrooper will be announced at its congress on January 16th. Backed by her father for the job, and tipped to defeat her rival, Bruno Gollnisch, Ms Le Pen is starting to unnerve mainstream politicians.

For nearly four decades Mr Le Pen, who once called the Holocaust a "detail" of history, has helped shape French politics. In 2002, to widespread consternation, he beat the Socialist candidate, Lionel Jospin, into the French presidential election run-off against Jacques Chirac. His brooding presence has pushed the mainstream right into ever more hardline policies on immigration and security. Ahead of the 2007 presidential-election campaign, Nicolas Sarkozy echoed one of Mr Le Pen's catchphrases, declaring that: "If anybody doesn't like France, they should leave". Even today, 22% of voters say that they agree with the National Front's ideas.

A decade ago, there were doubts that Ms Le Pen could ever fill her father's shoes in the macho, traditionalist world of far-right politics. Over the years, though, she has shown a steely pugnacity, mixed with disarming charm. To the frustration of Mr Gollnisch, who gets a fraction of the media attention, she is a frequent television talk-show guest. On a prime-time programme in December she upstaged the presenters, who were brimming with barely concealed contempt for her, with a poised and courteous performance.

Ms Le Pen's talent has been to move the far-right away from its thuggish neo-Nazi fixation to more respectable concerns about integration and what she calls "Islamisation". By casting herself as a defender of French *laicite*, or secularism, she is a harder target for mainstream politicians to attack. At a rally in Lyon in December, she caused outrage by comparing French Muslims praying in the streets to the Nazi occupation. As liberal opinion wrung its hands, her profile only grew. One Socialist figure, BenoÃ®t Hamon, said he agreed that it was a problem to have prayers in the streets. A poll suggested that 39% of the French approved of Ms Le Pen's comment.

Such views, which she presents as common sense to voters disillusioned with the political elite, have scored Ms Le Pen some electoral success, particularly in working-class bits of northern France battered by joblessness and turned off by Mr Sarkozy as well as by the far left. In the 2007 legislative elections, she was the only National Front candidate to make it through to a second-round run-off. In the first round of the 2010 regional elections, she secured almost as many votes as Mr Sarkozy's candidate, Valery Letard, in the Nord-Pas-de-Calais. In a December poll she scored a 33% approval rating, up six points on the previous month and higher than her father.

In darker moments politicians from the ruling UMP party worry that next year's presidential election could turn into a 2002 in reverse: the unpopular Mr Sarkozy beaten by the National Front into the second-round run-off. That remains far-fetched, although one UMP deputy recently called on the party to consider local electoral alliances with the National Front to ward off such an outcome. Mr Sarkozy has explicitly ruled this out. But if Ms Le Pen takes over, the president's past trick of deploying hardline talk about immigration and security to rob the National Front of votes could become harder to pull off.

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The French language

## Sarkozy can't speak proper

Jan 13th 2011 | *PARIS* | from PRINT EDITION

**French politicians take on their own language**


MOST political leaders struggle to speak fluently in a foreign tongue. Only the exceptional manage to mangle their own. Step forward France's president, Nicolas Sarkozy. Last year, in a written parliamentary question, Francois Loncle, an opposition deputy, said the president "mistreated" the French language with his endless grammatical slips and "vulgar expressions". He urged the government to "take all necessary steps" to put an end to the president's "attacks on the culture of our country and its reputation in the world."

Now the education minister, Luc Chatel, has finally replied. In a letter leaked to the French press, though oddly not published in parliamentary records, Mr Chatel denied that the president abused the French tongue. Rather, he argued, Mr Sarkozy uses a "clear and real" form of language, which reflects his "proximity" and "spontaneity" with the people. Mr Chatel added that the president specifically avoids "amphigoric style and syntactic convolution".

When he was first elected in 2007 Mr Sarkozy's fondness for verbs over abstract nouns, and colloquial phrases over official waffle, felt refreshing. He may not have a literary mind, a virtue prized by the Paris elite. But by omitting the "*ne*" in a negative sentence, or employing cafe slang, he merely uses French as it is spoken and texted. In France, however, a nation defined in part by its language, the purists have been aghast. The Academie Francaise was set up in 1635 by Cardinal Richelieu to codify and regulate the French tongue. In the year to April 2010 the language police from the Professional Advertising Regulatory Authority checked 36,000 ads for proper use of French, and ordered 919 corrections.

In recent months, in line with a more presidential tone, Mr Sarkozy has made more of an effort. In a televised interview in November, after he reshuffled the government, he even nailed the fiendishly difficult imperfect subjunctive: "*J'aurais aime qu'il restat*" (I would have liked him to have stayed).

Mr Sarkozy is not the only French politician to wrestle with the language. Some fail to make adjectives agree with nouns, or conjugate verbs improperly. Others simply slip up while their minds are apparently elsewhere. Brice Hortefeux, the interior minister, recently referred to "*genitales*" (genital) rather than "*digitales*" (digital) fingerprints. And in a discussion about the economy, Rachida Dati, formerly justice minister, coolly said "*fellation*" (fellatio) instead of "*inflation*".

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Jiri Dienstbier

## A Czech's career

Jan 13th 2011 | *PRAGUE* | from PRINT EDITION

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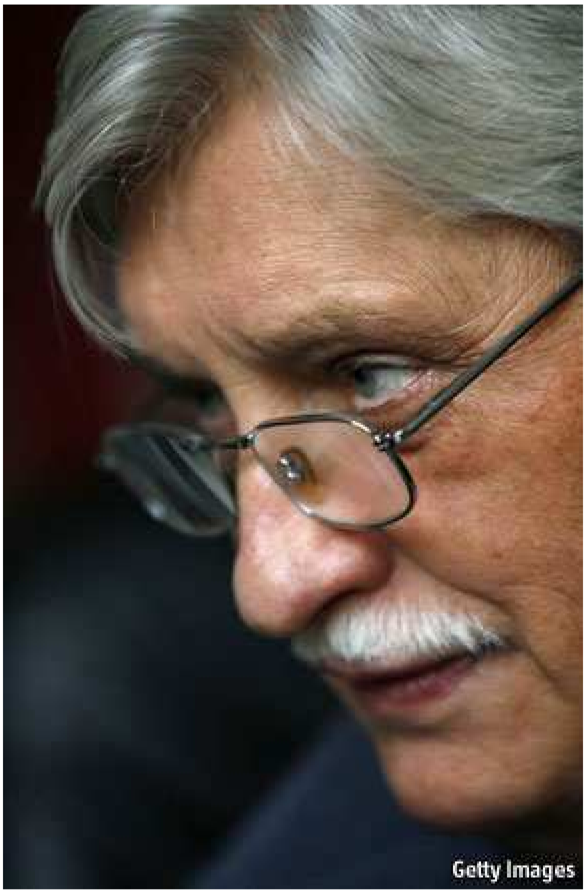
**An idealistic ex-stoker mourned by the country he served**




INCONVENIENT truths tend to get lost in Bohemia. Jiri Dienstbier, a dissident who became Czechoslovakia's first post-revolutionary foreign minister in 1989, kept a sharp eye on them. He was a journalist at heart: a star foreign correspondent in the 1960s. But his idealism made him one of tens of thousands of the brightest and best Czechs and Slovaks to be purged after the Soviet-led invasion of 1968 crushed the reformist hopes of the Prague Spring.

The urbane, polyglot Mr Dienstbier took a series of menial jobs, before settling down to work as a furnace-stoker on the Prague subway. It could have been worse, he said: at least it gave him time to read. In 1977 Mr Dienstbier was one of a tiny band of dissidents, which included his friend Vaclav Havel, to muster the courage to launch a modest human-rights manifesto called Charter 77.

Few remember now how hopeless that struggle seemed. The cold war was near its height. It required a huge act of faith to believe that communism was doomed and that Europe would be reunited. Mr Dienstbier, like many other Charter supporters, was persecuted and jailed. It did not stop him: he founded and edited a flimsy underground newspaper, *Lidove noviny* (*The People's News*), the dissident press's flagship (and now an important Czech daily).

In a few heady late November days in 1989, communism crumbled. The streets of Prague were thronged with demonstrators who booed their leaders and cheered the unknown outcasts of the dissident movement. Mr Dienstbier helped lead the negotiations that prised the regime's nerveless fingers from the levers of power-breaking off during the talks to stoke his furnace. A few days later he put down his shovel for good and took up his new post as foreign minister of a free Czechoslovakia.

Though not a natural administrator, he was the right man for the job. His biggest achievement was a rapprochement with Germany that buried Czech resentments about Nazi aggression and German ire about post-war deportations. He negotiated the end of the Warsaw Pact, the military wing of the Soviet empire. Wielding bolt-cutters, he chopped symbolic holes in the barbed-wire fence along the Czech-West German border. Mr Dienstbier's diplomats, mostly communist-era recruits, pirouetted obediently to the new tunes.

His big thing was Europe: a cause he adored before (and after) it was fashionable. He was not a natural Atlanticist, and a bit too soft, some thought, on Mikhail Gorbachev. Those struggling to leave the evil empire in 1990 and 1991 found it hard to convince Mr Dienstbier that they wanted the same freedom the Czechs and Slovaks had already won.

His career fizzled after he left office in 1992. He fell out with many former allies over the wars in Yugoslavia: family connections made him sympathise with Serbia. He stayed on the margins of public life until his death on January 8th, aged 73. His son, another Jiri, is a rising star in Czech politics: a blessedly dull trade compared with his dad's career.

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Wine in the Balkans

# Balkan bottoms up

Jan 13th 2011 | *PELJESAC, PODGORICA & SKOPJE* | from PRINT EDITION

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**Wine producing in the former Yugoslavia makes a comeback**

THINK of the great wine producers of the world and the countries of the western Balkans are unlikely to spring to mind. But that may soon change. The viticulturists of Croatia, Montenegro and Macedonia are working hard and investing heavily to find new markets beyond the comfort zone of the former Yugoslavia. Rich businessmen and ex-politicians seeking opportunities have fronted cash throughout the region. But beyond this common story there is huge variation.

Standing on the steep slopes of the Saints Hills vineyard on the Peljesac peninsula in Croatia, Dubravka Serkovic, a local producer, says wine has been made here "for ever". It certainly goes back to the ancient Greeks. These slopes produce Dingac, a wine distinguished, says Sasa Spiranec, a local wine writer, by the fact that the vineyards run sharply down to the sea, meaning all cultivation has to be done by hand.

Croatia has some 2,500 winemakers producing for the market (many thousands more produce their own). But a few big companies account for half of the market. Tourists quaff large amounts of the stuff but these days they are drinking cheaper, if not less. Sales of Croatia's many expensive wines have fallen by 40% in the past two years, leading producers to look abroad. Until recently only 5% of Croatian wine was exported, and half of that went to the rest of the former Yugoslavia.

Just south of Peljesac, in Montenegro, the story could hardly be more different. There is a single dominant force here: Plantaze, the biggest producer of bottled wine in the former Yugoslavia. Like its rivals, Plantaze has been hit hard by the recession, but in 2010 it still sold 16.9m bottles.

But less than half of that is drunk at home. One-third of Plantaze's production goes to Serbia, 15% to Bosnia, 5% to Russia and 5% to western Europe. Still, says Plantaze's director, Verica Maras, pressure from Italian and French producers exporting to the former Yugoslavia means the company can no longer rely on regional trade. Moreover, as local winemakers are too small to produce the large amounts big western supermarket chains demand, the emphasis has to be on quality.

Tikves plays a similarly dominant role in Macedonia, producing two-thirds of the country's wine. But again the story is different. In the Yugoslav days 80% of Macedonia's grapes were exported in bulk and ended up bottled elsewhere in Yugoslavia, or abroad. Now almost all Macedonian wine is branded and bottled at home. Of that, 45% is consumed domestically and the same amount exported to Serbia.

But Macedonia also faces a unique problem. For almost 20 years it has been involved in a tedious dispute with Greece, which thinks that its name implies a territorial claim to Greek Macedonia. In 1989 Greece registered the term "Macedonia" so that only wines from the Greek region could bear that stamp. In recent years, says Katerina Kostovska, Tikves's export manager, Greece has acted aggressively to protect that claim. Awkwardly, the best-known wine from (the former Yugoslav) Macedonia is "T'ga za Jug", which translates as "longing for the south".

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Turkey and Armenia

## Two vast and ugly blocks of stone

Jan 13th 2011 | *ANKARA* | from PRINT EDITION

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**The prime minister looks on a city's works, and despairs**


STATUES in Kars are not safe when Recep Tayyip Erdogan is around. When Turkey's prime minister visited the city last year, the local mayor, who belongs to Mr Erdogan's mildly Islamist Justice and Development (AK) party, sought to avoid his ire by ordering the removal of a public fountain featuring bare-breasted nymphs. Last week, during another trip to Kars, which lies about 45km west of the border with Armenia, Mr Erdogan called for the demolition of a local monument designed to promote reconciliation between Turks and Armenians. The statue, of two 30-metre-tall concrete figures reaching out to each other, was, he said, a "freak".

Mr Erdogan insisted that his distaste was purely aesthetic. Yet some suspect him of pandering to nationalist sentiment in the run-up to elections in June. Many Turks see the statue as an admission of Armenia's charge that the slaughter of up to

1.5m Armenians by Ottoman forces in 1915 amounted to genocide. In 2009 the then mayor of Kars, Naif Alibeyoglu, who had commissioned the statue, was forced out under pressure from Mr Erdogan and the city's 20% ethnic Azeri population (egged on by Azerbaijan, which disliked Turkey's efforts to make peace with Armenia).

Mr Erdogan has backed away from a set of protocols signed with Armenia in 2009 that foresaw the establishment of diplomatic relations and the reopening of borders. These were sealed in 1993 after Armenia's short war with Azerbaijan over the mainly Armenian enclave of Nagorno-Karabakh. Mr Erdogan insists that the protocols can only be ratified if Armenia withdraws from seven regions it occupies around the enclave. Armenia is threatening to scrap the deal altogether.

But there is also a whiff of Islamic orthodoxy in the air. Mr Erdogan's tirade against the Kars statue included references to Hasan Harakani, an ancient Muslim scholar buried nearby. "They erected a strange thing next to his mausoleum... it is unthinkable," he complained. Many Muslim scholars consider statues to be idolatrous, and other AK officials have not disguised their aversion to them. Ankara's mayor, Melih Gokcek, has systematically dismantled statues erected by his pro-secular predecessors. "I spit on this kind of art," he once said.

Mehmet Aksoy, the designer of the Kars monument, says that the government risks being seen as "the Taliban" if it presses its demands. But Turkey's foreign minister, Ahmet Davutoglu, has backed his boss, arguing that Mr Aksoy's work fails to blend into the Seljuk, Ottoman and Russian character of the city. He might have included Kars' Armenian legacy, but that is being erased. A long-abandoned tenth-century Armenian church recently reopened-as a mosque.

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Charlemagne

# Mr China goes shopping

Jan 13th 2011 | from PRINT EDITION

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**China's buying spree raises hope, and fear in Europe**


*SALDI*! Â¡*Rebajas*! The winter sales have started. And like the increasingly numerous Chinese tourists across Europe, the Chinese state has gone shopping. On his tour of Europe this month, China's vice-premier, Li Keqiang, announced his country's plan to buy cheap European government bonds, as Chinese companies purchased shares in European petrochemical ventures, tens of thousands of cars and even a few million euros' worth of Spanish wine and ham to top off the shopping basket.

This is not just nouveau-riche retail therapy. China is looking for bargains. But some of the things it is seeking to spend its money on are less tangible: goodwill, political support and, perhaps most importantly, the survival of the euro zone. In recent months Chinese leaders have visited not just the big European countries, such as Germany, France and Britain, but also several of the troubled "peripheral" states. With every trip to the southern fringe-be it Wen Jiabao, the prime minister, in Greece in October; President Hu Jintao in Portugal in November; or Mr Li in Spain this month-the leadership brings the same message: China supports European integration, wants the euro to flourish and will buy bonds to help the most indebted states.

Writing in *El Pais*, Mr Li held out the prospect of "colossal" business opportunities for Spain: "If each of the 1,300 million Chinese people consumed a bottle of olive oil or enjoyed a few glasses of wine, all of Spain's annual production would probably not be sufficient to meet the demand." The newspaper reported that Spain had greeted Mr Li as a "new Mr Marshall", an allusion to the American secretary of state who gave his name to the post-war reconstruction programme in Europe. Last October the Italian authorities put up Chinese lanterns and bathed Rome's Colosseum in communist red light to welcome Mr Wen. It is a sign of how fast China is rising, and how quickly Europe has fallen behind, that European leaders should cling for salvation to a country that, however big, has an economy one-third the size of the European Union's.

China has good reason to help Europe, its biggest export market and an important source of technology and know-how. Buying European bonds helps to shore up China's vital market, stop the slide of the euro that would make China's exports more expensive, protect Chinese euro-denominated assets and diversify Chinese reserves away from dollars. Still, the scale of Chinese bond-buying is unclear; certainly, it has not been enough to assuage the panic in the markets. Bond yields for Europe's periphery remain worryingly high despite the bail-outs of Greece and Ireland. Portugal may well be next (see article).

Nor is it obvious that China's money is helping to buy European sympathy. An attempt by Catherine Ashton, the EU's foreign-affairs chief, to reopen the debate on lifting the arms embargo imposed on China after the 1989 Tiananmen Square massacre seems to have come to nothing. And although Mr Li hailed Spain as China's "best friend" in Europe during his visit, Madrid still sent its ambassador to last month's Nobel peace prize ceremony in Oslo honouring Liu Xiaobo, a jailed Chinese dissident, as did every other EU country with an ambassador in Norway.

If anything, there has been a marked sharpening of Europe's tone towards China over economic issues: the value of the yuan, European firms' access to the Chinese market, restrictions on the export of rare-earth minerals essential to high-tech industries and China's acquisition of western intellectual property, by fair means or foul. In France spooks have been called in to investigate whether China was behind the espionage that targeted Renault's electric-car technology. Europe and America are both boosting their cyber-defences in large part because of the vast scale of suspected Chinese electronic snooping.

Even a largely pro-market body like the European Commission, which regards abolishing trade barriers inside Europe as a sacred task, is starting to make protectionist noises about China. Antonio Tajani, the industry commissioner, has called for the EU to vet foreign investments that may "represent a danger". This was prompted by the (failed) attempt by a shadowy Chinese company to take over a Dutch maker of fibre-optic cables. The trade commissioner, Karel De Gucht, is preparing possible retaliatory measures against China if it does not open up more of its government contracts to European bidders. One reason for this was Poland's decision to award a Chinese firm a contract to build a section of a motorway part-funded by the EU.

Whether either of these measures is implemented will depend on the balance of power between free-trading "northern" countries and more protectionist "southern" states. Opinion is shifting, however. Last September European leaders agreed that relations with China should be based on "reciprocity".

**Size matters**

For Europe, the rise of China is exacerbating its own decline. Until recently the economic debate turned on whether Europe could keep up with America; now it is whether it can stay ahead of China. "Beyond a certain size, China is disturbing," says one Eurocrat. It not only threatens Europe's low-end manufacturers of shoes and textiles but is quickly moving into making cars, trains and, perhaps soon, planes. Yes, the Chinese love BMWs and Gucci bags. But can Europe survive on high-spec and luxury goods-Switzerland on a continental scale?

The EU is surely right to demand reciprocity, but it must be the right sort. Starting a tit-for-tat trade war would leave Europe worse off: consumers would pay higher prices, taxpayers would suffer and firms would lose markets. What Europe needs is more open markets and clearer rules. For China, too, these would be a better buy than dodgy bonds.

Health-care reform

# The final frontier

Jan 13th 2011 | from PRINT EDITION

**Of all the government's public-service reforms, its bid to reshape the National Health Service may prove the most painful**


ONE of the problems governments face in attempting to reform health care is that the National Health Service (NHS) is a symbol as well as a service. Nigel Lawson, a former Conservative chancellor, observed that England only had one national religion: the NHS. The coalition agreement signed last May by the Tories and Liberal Democrats described the NHS as "an important expression of our national values". Meddling with it can be dangerous-as the coalition is discovering.

Whereas the Conservatives' plans for welfare and education reform were described in their election manifesto, the ongoing shake-up of the NHS was not. As it turned out, Andrew Lansley, now the Tory health secretary, was stealthily working on a plan for major reforms. He proposes to dissolve both Primary Care Trusts, which commission hospital care on behalf of GPs (family doctors), and Strategic Health Authorities, regional organisations that issue guidance and directives about expenditure. Instead, GP practices will be obliged to form consortia to commission care themselves. European competition law will ensure a level playing field between public and private providers.

This is a big shift, but not a wholly original one. Margaret Thatcher initiated the division between the purchasers of hospital care (local doctors commissioning services for patients) and providers (usually large hospitals). The new plan revives a Tory experiment of the early 1990s, which placed budgets at the disposal of some GPs.

The arguments for it look strong. The budget of the NHS in England (health care in other parts of Britain is organised separately) ballooned in the boom years to pound104 billion ($164 billion), and is protected from the spending cuts affecting most other government departments. Yet David Nicholson, the NHS's chief executive, has estimated that the service faces a shortfall of up to pound20 billion in the next three years. To meet increased demand, NHS productivity-which has remained static since 1997-needs to rise by 4% per year. Already the financial strain is showing. A shortage of flu vaccine in a cold January looked like a harbinger of shortages ahead. The Royal College of Midwives has warned that

it is dangerously short-staffed when it comes to delivering little Britons. In theory the reforms will save money, by cutting administrative costs and giving GPs more incentive to spend wisely.

And the NHS is still widely variable in outcomes, as well as in efficiency. Some GPs embrace the task of chivvying specialists for better and quicker care for their patients; some do not. The new arrangements might oblige the slacker ones to be more engaged. Meanwhile, Mr Lansley's bid to extend choice among providers will involve publishing more transparent data on clinical performance-long viewed by hospitals and consultants with suspicion, but an advance for patients in making decisions about where they are treated.

Predictably, the health secretary faces formidable opposition. Medical practitioners are prodigious and well-organised complainers-and skilled in persuading voters that their interests are aligned.

Spokesmen for family doctors say they do not wish to become administrators-to which the government replies that it is happy for GP practices to appoint others to bargain with providers on their behalf, and to switch to new intermediaries if they find the results unsatisfactory. Another doubt is whether the breakneck pace that Mr Lansley envisages-all GP practices will be required to be part of consortia by 2013-will create problems of its own.

**Pick your battles**

Sarah Wollaston, a doctor and since last year a Conservative MP, has warned Mr Lansley that the threatened speedy dissolution of existing structures is causing staff to quit, just at the time when experience of commissioning will be at a premium. Doctors are also concerned about the legal framework of consortia and the possibility of financial failures.

The suddenness of the changes, and fears about the accountability of the new organisations, disturb even some who are broadly supportive. Opponents also worry that private providers could undercut existing public ones, in effect running loss-leader services to drive others out of business. In response, Mr Lansley offers a robust defence of deregulation and its benefits to consumers, based on his experience in helping the Thatcher government deregulate the telecoms industry in the 1980s. In truth, no one knows what will happen until the reform is tried.

These heckles have unsettled some in the government. In the roster of its reforms, education has always taken pride of place, in particular the Swedish-style "free schools" intended to shake-up comprehensive education. Welfare reform comes next. Some think upheaval in the NHS would leave the government fighting on too many fronts at once-and that a battle royal with doctors and nurses is best avoided, given the resistance of other public-sector unions to the coming cuts.

That is to say nothing of the Liberal Democrats, the Tories' coalition partners, who have already been bruised by rows over hikes to university-tuition fees and free schools, and whose grassroots are suspicious of Tory intentions on health. Oliver Letwin, the Cabinet Office minister and a trusted ally of Mr Cameron, has been drafted in by Number 10 to try to limit the ructions. That has led to tension in the inner Tory team over how uncompromising the reforms should be, with the "managerialists" arrayed against "true believers".

Mr Lansley is a quietly spoken man with a big vision. But he needs more than a plausible bedside manner to reassure patients and professionals alike that his proposals will be therapeutic. He might well find himself compelled to alter the pace of his reforms, if not their scale.

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Bankers' pay

# Round three

Jan 13th 2011 | from PRINT EDITION

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**The annual ding-dong over bank bonuses is under way**


Osborne, hammer of the City. Or not

BONUSES are the "lightning rod" of the public's lack of trust in finance, reckons Hector Sants, chief executive of the Financial Services Authority, a watchdog. Ahead of banks announcing their annual pay packets and results next month, the political atmosphere is electric.

The anger extends far beyond the artificial sort whipped up by newspapers. Most people find it incredible that banks directly bailed out by the state are set to line their employees' pockets again. Many normally sober economists spit that those firms that were not bailed out are making payouts from profits boosted by the implicit guarantee that highly leveraged banks enjoy.

Although they form a small part of the overall pay bill of banks, much of the hostility is directed at the rewards banks' bosses get. For the past two years the heads of Britain's five big firms-HSBC, Royal Bank of Scotland (RBS), Barclays, Lloyds and Standard Chartered-have tried to be seen to exercise pay restraint, for instance waiving their bonuses or donating them to charity. That ceasefire will end this year. Bob Diamond, who took over the reins at Barclays last month, is thought to be in line for a multimillion-pound top-up for 2010. So too are Stephen Hester and Eric Daniels, the top brass at RBS and Lloyds, both of which are part-owned by the state.

If they are under pressure, so are the politicians. One of the conditions on which the Liberal Democrats, the minority partner in Britain's government, entered the coalition last year was a pledge to get tough on the banks. Having buckled over other issues, such as tuition fees, and with their poll ratings slumping (and a by-election being held on January 13th), they are desperate to show their mettle. One bank boss complains that coalition government has made the whole issue of regulating finance "messy".

The politics of austerity have made it messier still. Public spending is being slashed, taxes are rising and, in the rest of the economy, wages are frozen or increasing slower than prices. David Cameron's claim that "we're all in this together" rings somewhat hollow when applied to finance. Ed Miliband, Labour's new leader, has predictably chastised the coalition, demanding that the supposedly one-off tax on bonuses imposed last year by the previous government be retained.

The nervousness of Mr Cameron's Conservatives about more draconian action partly reflects the fact that the government will eventually want to sell its large stakes in Lloyds and RBS. City types argue that the impact of new regulation and taxes will soon reach a tipping point at which British firms will be disadvantaged-and they, along with foreign rivals with a presence in the City, will start to leave. Big banks say they must compete for staff with foreign firms that are not subject to restraints. Two British-headquartered firms, HSBC and Standard Chartered, maintain that they have different, and safer, business models from the other banks, being largely international and less dependent on the sort of risky borrowing that pushed HBOS (bought by Lloyds in a government-backed deal) and RBS into the state's arms.

Until recently bank bosses have remained contrite in public. Last year, Mr Hester (who is doing a decent job at RBS) admitted that even his parents thought he was paid too much. But now they are starting to fight back. On January 11th Mr Diamond was subjected to his first ritual barracking from a committee of MPs. While accepting that Barclays would not shell out more than necessary, he insisted that the "period of remorse and apology...needs to be over."

Hours later George Osborne, the chancellor of the exchequer, outlined a compromise. He emphasised the sensible measures the government and regulators have already put in place: a levy on banks' risky borrowing that should raise pound2.5 billion ($3.9 billion) a year, and tough new rules to ensure most bonus payments are deferred, to encourage longer-term decision-making (though Mr Osborne is keen to take the credit for the latter, they were actually written by European regulators). He made another attempt to prod RBS into relative parsimony while bemoaning the "inadequate" contract struck with the banks by the last government. He hopes to reach a new "settlement" with the banks, which would see them pay less, be more transparent, lend more and be nicer to customers. Just the holy grail, then.

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The outlook for exports

# Trade winds

Jan 13th 2011 | from PRINT EDITION

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**The prevailing gloom over Britain's trading performance is overdone**

THE economic recovery might have been sprightlier last year than once expected, but sustaining it in 2011 will be a tough task. The boost from firms rebuilding their inventories after running them down in the recession will dwindle. Consumers will be squeezed by rising inflation and higher taxes. Big cuts in public spending will get under way in April. Maintaining the upswing will hinge on businesses investing and exporting more.

Recent figures for capital spending by firms have been encouraging. After plunging by an extraordinary 18.9% in 2009, fixed investment by businesses grew by 8.9% in the year to the third quarter of 2010. Britain's trading performance, in contrast, has disappointed those expecting a swift pay-off from a weaker pound.

The depreciation of some 25% in sterling's trade-weighted value from mid-2007 had kindled hopes that an export boom and an import slowdown would bolster GDP growth. Net trade did cushion the economy during the recession, as imports fell more than exports. But more recently it has been holding back the recovery as imports have bounced back faster than exports, growing by 10.3% in the year to the third quarter of 2010 compared with a 7.5% rise in exports. Official figures published this week showed the overall deficit on goods and services widening from pound4 billion ($6.3 billion) in October to pound4.1 billion in November.

Still, the direction of these currently adverse trade winds should soon change. It would be odd if imports continued to surge, given that any rise in consumer spending this year is likely to be nugatory. And the slackening pace of inventory rebuilding will curb import growth, because stockbuilding is the component of demand that is hungriest for imports.

Moreover, the overall figures for exports mask a striking divergence between goods and services. Manufacturers are taking advantage of the weaker pound and the recovery in world trade. Exports of goods rose by 12.2% in the year to the third quarter, close to the 12.9% increase in imports over the same period. Stripping out oil and erratic items such as aircraft, exports jumped by 3.4% between October and November, as imports rose by 0.3%.

The surge in goods exports seems likely to continue. The EEF, a manufacturers' organisation, forecasts another strong year for industry, with sectors such as mechanical engineering flourishing thanks to sales into fast-growing emerging markets. A survey from the British Chambers of Commerce (BCC) has reported the healthiest manufacturing export orders since 1994.

By contrast, exports of services have been lacklustre, rising by only 0.8% in the year to the third quarter. Britain-the world's second-biggest exporter of services-relies more than most other large economies on its ability to sell the intangible. But since the banking crisis exports of financial services, which were previously burgeoning, have fallen. One worry is that this weakness will persist, reflecting lower international demand for the activities in which the City specialises.

Reassuringly the Office for Budget Responsibility, which now oversees the government's economic and fiscal forecasts, said in November that it judged "the current weakness in services exports to be a temporary effect". The BCC survey

seems to back this up. Although export orders for services were lower than those for manufacturing, they have climbed to their highest level since the middle of 2007.

So the gloom over trade may be overdone; but Britain still needs to get a lot better at exporting, especially to emerging economies. David Cameron is actively promoting more trade with China and India. The most compelling argument for businesses to export more is an economic version of the reason many Britons take foreign holidays: the contrast between a chilly climate at home and the warmth of fast-growing overseas markets.

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Luxury cars

# The new high Rollers

Jan 13th 2011 | from PRINT EDITION

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**A glamorous British success story (sort of)**


ASIDE from their luxurious finish and refined ride, Rolls-Royce motor cars are best known for their effortless acceleration. Sales figures released by the company on January 10th are a good example. Last year 2,711 rolled off forecourts compared with 1,002 the year before-more than double the previous high (in 2008) since BMW took over the British-based firm seven years ago.

Rolls's launch of a new "entry level" model at the end of 2009 is part of the explanation. The Ghost shares the butch looks, huge engine and imposing presence of its big brother, the Phantom, but is a snip by comparison. The new "baby" Rolls starts at a little over pound200,000 ($312,000); plutocrats must pay a half as much again for a Phantom.

The new model has attracted a new set of wealthy motorists: four-fifths of Ghost buyers have never owned the marque before. One in ten Ghosts are sold to women, who have hitherto steered clear of the brand. Perhaps most important, from Beijing to Bangalore the new Asian rich are snapping them up.

Growth in America, still the company's biggest market, was buoyant, but easily outpaced in China. Sales in that country, now Rolls's second-biggest market, surged by 600% and in India by 400% (overall, 90% of the firm's output is destined for foreign tarmac). Torsten Muller-Ã–stros, Rolls's boss, points to a desire to share in the British "genes and heritage" that the opulent wood and leather interiors epitomise-even if the engines, other parts and much of the technology come from Germany.

Where Rolls-Royce is leading, other British luxury carmakers seem to be following. In 2010 Bentley's global sales grew by a respectable 11%, to more than 5,000 cars. Bentley (owned by Volkswagen) also relies on exports: 80% of its vehicles go abroad. Again, Americans buy more than anyone else, but China, where sales grew by 87% last year, has rapidly become its second-largest market.

The Kuwaiti consortium that owns Midlands-based Aston Martin, which makes sportier and cheaper cars-at least compared with Bentley and Rolls-also expects business to pick up. It plans to raise hundreds of millions of pounds to expand production; last year it opened a huge showroom in Beijing. Aston is rumoured to be in talks with Daimler to take over design and production of the German firm's Maybach luxury cars, rivals to Rolls and Bentley in price, if not in style and sales.

Daimler might well have concluded that, after acquiring Rolls and Bentley respectively, BMW and Volkswagen were right not to shift production to Germany. The key to success in the luxury-car market seems to be to combine a reliable German motor and a lustrous British veneer.

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Parliamentary expenses

## Free bed and board

Jan 13th 2011 | from PRINT EDITION

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**A former MP has been jailed for fiddling expenses. Others might join him**

SOME of the MPs who have this week been barracking British bankers for their Croesean bonuses might be secretly relieved that the subject is in the news again. For the renewed row over financial-sector compensation, which has been ebbing and surging since the credit crunch began, diverted attention from another long-running bust-up over money that has returned to the news: the abuse by some MPs of Parliament's system of expenses, which surfaced spectacularly in 2009.

On January 7th David Chaytor, a former Labour MP, was sentenced to 18 months in prison for false accounting, after claiming pound20,000 in mortgage repayments on a house that he already owned outright. On January 11th it was the turn of Eric Illsley, who kept his seat at the last general election, to appear before a judge. He pleaded guilty to fraudulently claiming pound14,000 in expenses associated with a second home, and later announced his resignation from Parliament. If Mr Chaytor's fate is a guide, he is likely to face jail as well. Four other politicians-two ex-MPs and two peers-have been charged with similar offences, and the police are investigating several others.

Meanwhile, MPs are chafing under the tighter expenses regime designed amid the aftershocks of the scandal. The Independent Parliamentary Scrutiny Authority (IPSA), which was set up to administer the new system, is widely loathed inside the Palace of Westminster. Parliamentarians complain that it is overly bureaucratic and takes too long to come to reimbursement decisions, and that its rules penalise those with families, especially inconveniencing politicians without much private wealth. On January 5th IPSA announced a review of the rules, inviting the public to suggest further reforms to the system.

David Cameron, the prime minister, has indicated that he wants to see IPSA "sort itself out" by April. But he is having to perform a tricky high-wire act, placating mutinous MPs of all parties who dislike the new arrangements, while avoiding giving the impression to the public that he is acquiescing in a return to the bad old days.

That could prove tricky in a political climate defined by anger, mistrust and contempt among voters. One recent survey found that only 28% of respondents trusted MPs not to diddle their expenses. Worse, faith in the political system more generally is nearing banana-republic levels: 40% of respondents told the recent British Social Attitudes survey that they "almost never" trusted the government to act in the national interest, while 60% thought politicians "almost never" told the truth.

It is against this poisonous backdrop that an uneasy coalition government plans to implement the most austere fiscal policy in decades. Public ire will only grow as tax hikes and spending cuts take effect. Bailed-out bankers might be the pantomime villains of the hour. But any suggestion that MPs are conspiring to loosen the new expenses rules could be enough for them to reclaim that role.

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School league tables

# Games lessons

Jan 13th 2011 | from PRINT EDITION

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**Depressingly few pupils get a proper academic education**

I knew I should have done beauty therapy

WHEN Michael Gove, the education secretary, took up his post last May, he placed on the bare home page of his department's website the information that he considers most important: school performance tables. A few months later, Mr Gove added to the data deluge when he announced that schools would be judged not only on the proportion of pupils that passed examinations, but also on the share passing academically rigorous ones. The revamped league tables, published on January 12th, reveal the extent to which schools have artificially inflated their performance by steering pupils towards easier exams.

Just over half of English children leave school having passed five GCSEs, including English and maths, with acceptable grades, a figure that has been rising relentlessly since that measure was introduced as the basis of school-performance tables. Yet only 16% pass their five exams in the subjects once considered essential: a science, a language and a humanity, in addition to English and maths. The rest pass vocational subjects-not surprising, perhaps, when according to the official exchange rate a GCSE in applied physical education is equivalent to one in Latin, and a vocational qualification in beauty therapy worth as much as a good pass at GCSE physics.

A second reason for the low take-up of academic subjects is the declining popularity of modern languages, which were compulsory for 14-16-year-olds until 2004, but are no longer part of the national curriculum for that age group. In 2002, 76% of pupils were entered for French, German or Spanish. By 2010, that figure had fallen to 43%.

That matters because directing pupils towards easier qualifications makes it impossible for them to get into the best universities. University College London, for example, has said that from 2012 it will require entrants to all its degree courses to have passed a GCSE in a modern language at grade C or above.

Some head teachers complain that the new tables are unfair, because Mr Gove's criteria were devised after the relevant exams had been sat. Others observe that highlighting academic subjects will not stop schools distorting their methods to maximise their standing. In the past some have coached those students close to achieving five good passes while neglecting those who seem certain either to pass or fail; now teachers could come under pressure to pull the same trick, but for academic GCSEs only. The games will no doubt continue-but at least they now have a determined umpire.

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The Conservatives' new divide

## One party, two tribes

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**The Tory party has always had left- and right-wing factions. But the nature of the divide has changed**

Nick Boles/Rex Features/PA/Mark Pritchard/ConservativeHome.com/Rex Features

From left to right, in more ways than one: Boles, Letwin and Maude; Pritchard, Montgomerie and Fox

EVEN before last May, Britain did have political coalitions of a sort. The main parties have themselves always been uneasy alliances. The Liberal Democrats, born of the old Liberals and the more left-wing Social Democrats, are the most obviously divided. Labour often struggles to reconcile the cultural conservatism of its working-class heartlands with the liberal instincts of its metropolitan supporters.

Margaret Thatcher and John Major, the two previous Conservative prime ministers, can bitterly attest to the fractiousness of the Tories, too. The splits under their successor, David Cameron, are small in comparison-but they are widening. The party's right grumbles about the prime minister's policy sops to his Lib Dem coalition partners. The left provocatively suggests an electoral pact with them.

The Tories' half-hearted campaign in the Oldham East and Saddleworth by-election (held on January 13th, as *The Economist* went to press), implicitly intended to boost the Lib Dems, angered the party's right. Mr Cameron is likely to do even more to compensate the Lib Dems for the crushing losses they are expected to suffer in May's local elections, a possible "no" vote in a referendum on voting reform and other impending traumas. The antagonism between Tory left and right could be one of the main political themes of the year.

But who are these squabbling tribes? Though they crave lower taxes, the modern Tory right-embodied by Liam Fox, the defence secretary, Tim Montgomerie, an influential blogger whose distinction between "mainstream" and "liberal" Conservatives is catching on, and backbenchers such as Mark Pritchard and Bernard Jenkin-are not as preoccupied with economics as the "dry" Thatcherites of yesteryear. If they were, the government's ferocious spending cuts would keep them happy.

Culture and home affairs matter just as much. The government's liberal noises on crime and counter-terrorism have aroused more anger on the right than its retention of the 50p top rate of income tax. The right resents austerity when it is applied to defence; it wants Mr Cameron to revive his former reverence for the family. Its adherents are at pains to describe themselves as conservatives rather than libertarians. Some old Thatcherites, having read their Hayek, would have drawn the distinction in just the opposite way. The strongest bond between the old right of the 1980s and 1990s and the new version is another non-economic cause: Euroscepticism. On January 11th 27 Tory MPs voted for an amendment to toughen up the government's European Union bill.

The new Tory left is, if anything, even further removed from its antecedents in previous decades. The "wets" of the Thatcher era, such as Ian Gilmour and Douglas Hurd, were in a sense more conservative than their right-wing adversaries. They feared Thatcherism was too big a shock to the British system and trusted in the wisdom of Westminster and Whitehall. They tended to side with the established consensus: they shared the pragmatic pro-Europeanism of the diplomatic elite and the Home Office's pessimism that little could be done about rising crime.

By contrast, the new left-including the Cabinet Office ministers Oliver Letwin and Francis Maude, and the backbencher Nick Boles-are iconoclasts who define themselves by their zeal for giving power away. They have diverse views on economics, crime and Europe, but share a commitment to stronger local government and more control for ordinary people over public services. They admire the Lib Dems for their centrifugal instincts.

There are still plenty of heirs to the old-left tradition in the party: ministers such as Damian Green and (at least on issues pertaining to his justice brief) Ken Clarke; august backbenchers such as Tim Yeo and Andrew Tyrie. But the new left is now more influential. Running parallel to the coalition's austerity programme is a bold plan for decentralisation: more elected city mayors, more people power in areas such as education, the NHS and policing, and unprecedented transparency and openness in the state. Such irreverence towards the commanding heights of government would shock old wets.

**Big Society, big tent**

The new shape and character of Tory divisions actually helps Mr Cameron in some ways. Because the right is now as cultural as it is economic, and the left more enthusiastic about decentralising power, both can rally around Mr Cameron's idea of the "Big Society". This vision of a more communitarian conservatism has always had far more followers on the Tory right than is often assumed. In opposition, Mr Cameron's most metropolitan advisers built surprisingly good relations with Christian conservatives. Both sides were passionate about reviving civil society.

But there are problems for the prime minister, too. The bitterest row between left and right dates back to the last election, which led to the formation of the coalition. Those on the right say Mr Cameron fluffed an eminently winnable contest by relying on a clique of aloof and overconfident advisers, whose campaign strategy ignored popular themes such as immigration. Those on the left say the election result was proof that the party had not ditched enough of its right-wing baggage.

Both sides have a point; but the right's anger is more intense. It already regards George Osborne, the chancellor of the exchequer, as the real guardian of the Tory interest in the coalition. The downside of Mr Cameron's vast self-belief is complacency, often manifested in an inattentiveness to his own political backyard. If he needs the support of his right flank in a future crisis, he cannot be sure of getting it.

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Bagehot

# Of magic and daylight

Jan 13th 2011 | from PRINT EDITION

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**"The King's Speech" is both preposterous and oddly shrewd about Britain**

DEEP in Britain's collective unconscious, it is said, a special place is reserved for dreams about the queen dropping round for tea-a fantasy that taps into modern snobberies but also ancient tales of monarchs passing incognito among their subjects, and commoners with secret royal friends. Small wonder, perhaps, that "The King's Speech", a film about King George VI, has sparked swooning adulation since opening at British cinemas this month. Towards the end, it hits all three fantasies at once: a humble speech therapist is forced to reveal that the king is his patient and friend, after his wife finds Queen Elizabeth at their dining table in a hat, pouring tea.

Ostensibly, the film's success is rooted in its depiction of an interesting, little-known true story. There is something to this. Many younger Britons have only sketchy notions of George VI, perhaps knowing he reigned during the second world war and fathered the present monarch, Elizabeth II. The film shows a shy prince overcoming a bad stammer with the help of an unorthodox Australian therapist, Lionel Logue (who did exist), in time to ascend the throne after the abdication of his brother, Edward VIII. It breathes rare life into his wife, Elizabeth, later revered in the role of Queen Mother, a rather doll-like figure loved for smiling, waving, saying little in public and living to 101.

But acclaim for "The King's Speech" cannot be attributed to narrative interest alone. Once popularity reaches a certain pitch, it cannot be fully explained by examining its object: extreme public enthusiasm is often a form of narcissism. If British cinema-goers have taken this tale of a reluctant king to their hearts, it is because it faithfully reflects their sense of themselves.

At the heart of the film lie two linked themes. One involves Britain's ideas of hierarchy, the other its wartime heroism and rejection of fascism. First, hierarchy. At a casual glance, the film could pass for subversive. Its least attractive characters believe in grandeur based on birth or rank. They range from snooty members of an English amateur theatrical society (who snigger at Logue, an Australian, auditioning for Shakespeare) to the priggish Archbishop of Canterbury, appalled by Logue's lack of qualifications. Above all, Edward VIII is shown as unworthy: a bullying playboy, unmanned by dependence on ghastly Wallis Simpson.

In contrast, George VI, his wife and two young daughters are shown fulfilling what the original Bagehot called the English ideal of "a family on the throne". This leads to some moving scenes, such as when the two princesses first see their father in a king's dress uniform and-after an instant of uncertainty-curtsy with a mixture of love and faint alarm. At other moments, the film wallows in sentimental anachronism. One preposterous scene has the king shuffling across a nursery floor in white tie and tails, impersonating a penguin for his daughters (in view of a nanny). In another, he celebrates a stammer-free speech by snogging his wife and whirling his children about. Not that much is known of George VI's private life. But given that he died in 1952 and his daughter the queen seems pretty formal, it seems implausible that he cast protocol to the winds like a proto-Diana in trousers.

Equally, for most of the film, Logue is shown using impertinence as a clinical tool, calling his royal patient "Bertie" or lounging on a throne to provoke the king's stutter away. In fact Logue's real-life diaries show a more formal relationship.

What is going on? A clue can be found near the climax. The buttoned-up king calls Logue "my friend". In return, Logue at last calls him "Your Majesty". The message is thumpingly clear: only once the king has shown he is Logue's equal in humanity has he earned the Australian's reverence. Triumphantly swelling chords give the game away. This is a moment of conservative closure: a celebration of a very British doctrine of meritocratic snobbery-the notion that deference is quite proper, as long as it is deserved.

That grudging doctrine has its uses. Historically, Britain's insistence on earned respect arguably helped insulate the country from fascism. In much of Europe would-be tyrants spent the 1930s strutting about in black shirts and shiny boots on stages lit by searchlights. In Britain, Oswald Mosley recruited thousands to the fascist cause but-vitally-he was also seen as ludicrous. As one Conservative MP noted acidly: "he is wearing riding breeches and riding boots though I cannot see any horse." In the film, Edward VIII is a flashy, selfish chap. When he praises Hitler (shown preening and ranting on a newsreel), it is no surprise.

These themes come together in the climactic royal speech of the film's title, broadcast on the day war broke out. Audiences watch George VI-a man who did not seek the throne, wanting only to raise his family in peace-reminding his subjects that Britain (depicted as a drab, grey little island, albeit one with a large empire) had also sought to live in peace, until forced into war.

**Flummery and flattery**

This is the stuff of national myth-making: the undemonstrative king and his undemonstrative country provoked to painful duty by foreign tyranny. There are some lessons here for Britain's present rulers. This is a prickly, conservative and proud

nation, in which grandeur must be offset with displays of humanity: David Cameron, a privileged chap who has suffered tragedies in his private life, knows this already. When it comes to the monarchy, it is a confused place, half-imagining that British kings earn their thrones: just ponder the frequent opinion polls suggesting that the Prince of Wales should stand aside and let Prince William, who seems less stuffy, succeed the queen.

Perhaps it is simpler still. "The King's Speech" is at times uplifting and at other times absurd. But if you are British, or even just an admirer of Britain, it is a deeply flattering film. No wonder that it is proving so roaringly popular.

Economist.com/blogs/bagehot

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Violence against women

# War's overlooked victims

Jan 13th 2011 | *GOMA* | from PRINT EDITION

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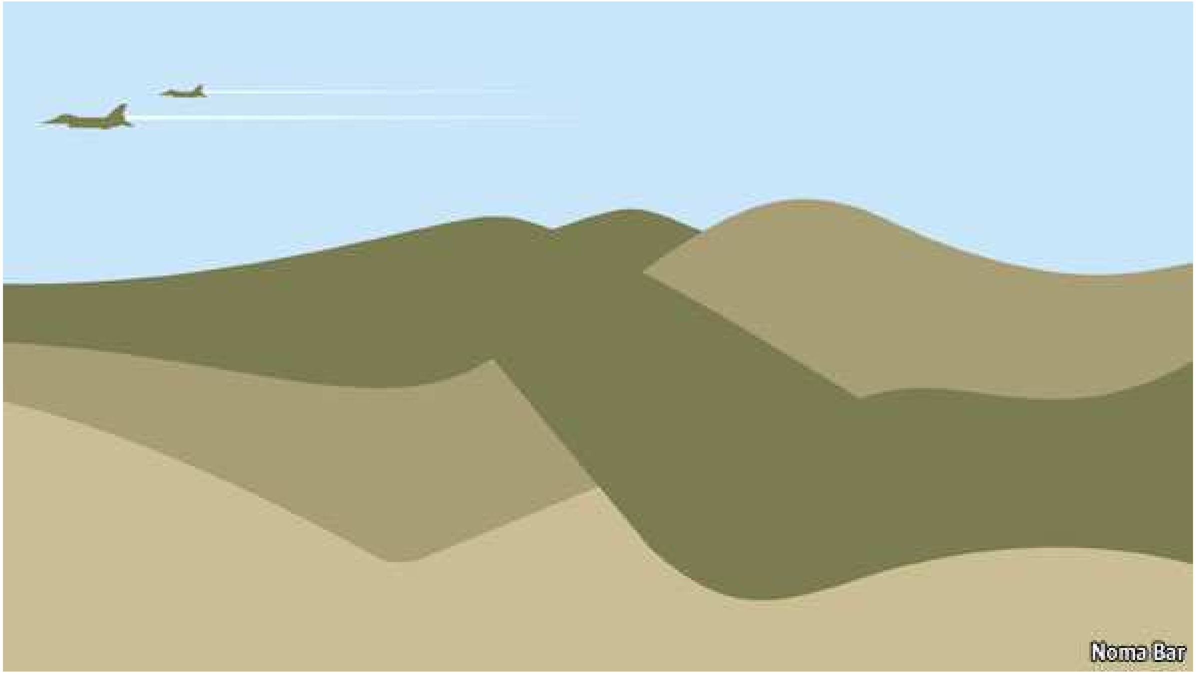
**Rape is horrifyingly widespread in conflicts all around the world**




Correction to this article

SHORTLY after the birth of her sixth child, Mathilde went with her baby into the fields to collect the harvest. She saw two men approaching, wearing what she says was the uniform of the FDLR, a Rwandan militia. Fleeing them she ran into another man, who beat her head with a metal bar. She fell to the ground with her baby and lay still. Perhaps thinking he had murdered her, the man went away. The other two came and raped her, then they left her for dead.

Mathilde's story is all too common. Rape in war is as old as war itself. After the sack of Rome 16 centuries ago Saint Augustine called rape in wartime an "ancient and customary evil". For soldiers, it has long been considered one of the spoils of war. Antony Beevor, a historian who has written about rape during the Soviet conquest of Germany in 1945, says that rape has occurred in war since ancient times, often perpetrated by indisciplined soldiers. But he argues that there are also examples in history of rape being used strategically, to humiliate and to terrorise, such as the Moroccan *regulares* in Spain's civil war.

## Customary evil

Rape during conflicts

| Conflict | Estimated rapes |
|---|---|
| Second Sino-Japanese war, Nanking, 1937 | **20,000** (some 200,000 sex slaves were then provided for the Japanese army during WWII) |
| Soviet army in Germany, WWII | **100,000 - 2m** |
| Pakistani army during the Bangladesh war of secession, 1971 | **200,000** |
| Bosnian war, 1992-95 | **20,000** |
| Sierra Leone civil war, 1991-2002 | **Over 50,000** |
| Rwandan genocide, 1994 | **500,000** |

Source: *The Economist*

As the reporting of rape has improved, the scale of the crime has become more horrifyingly apparent (see table). And with the Bosnian war of the 1990s came the widespread recognition that rape has been used systematically as a weapon of war and that it must be punished as an egregious crime. In 2008 the UN Security Council officially acknowledged that rape has been used as a tool of war. With these kinds of resolutions and global campaigns against rape in war, the world has become more sensitive. At least in theory, the Geneva Conventions, governing the treatment of civilians in war, are respected by politicians and generals in most decent states. Generals from rich countries know that their treatment of civilians in the theatre of war comes under ever closer scrutiny. The laws and customs of war are clear. But in many parts of the world, in the Hobbesian anarchy of irregular war, with ill-disciplined private armies or militias, these norms carry little weight.

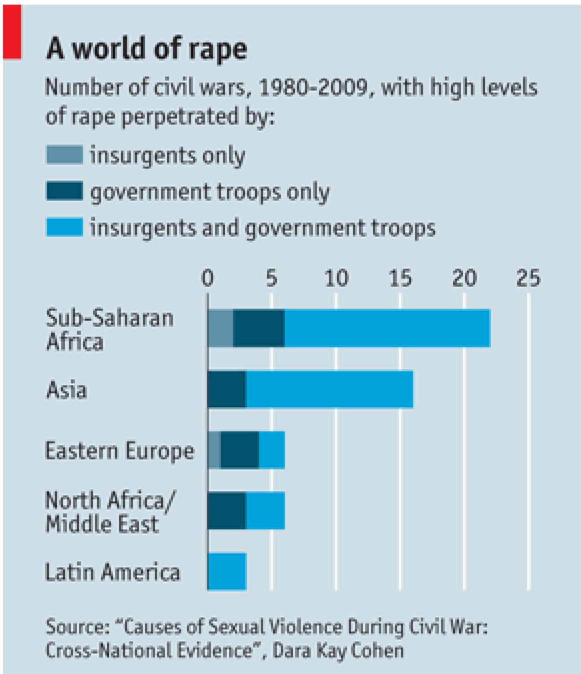
Take Congo; it highlights both how horribly common rape is, and how hard it is to document and measure, let alone stop. The eastern part of the country has been a seething mess since the Rwandan genocide of 1994. In 2008 the International Rescue Committee (IRC), a humanitarian group, estimated that 5.4m people had died in "Africa's world war". Despite peace deals in 2003 and 2008, the tempest of violence has yet fully to subside. As Congo's army and myriad militias do battle, the civilians suffer most. Rape has become an ugly and defining feature of the conflict.

Plenty of figures on how many women have been raped are available but none is conclusive. In October Roger Meece, the head of the United Nations in Congo, told the UN Security Council that 15,000 women had been raped throughout the country in 2009 (men suffer too, but most victims are female). The UN Population Fund estimated 17,500 victims for the same period. The IRC says it treated 40,000 survivors in the eastern province of South Kivu alone between 2003 and 2008.

"The data only tell you so much," says Hillary Margolis, who runs the IRC's sexual-violence programme in North Kivu. These numbers are the bare minimum; the true figures may be much higher. Sofia Candeias, who co-ordinates the UN Development Programme's Access to Justice project in Congo, points out that more rapes are reported in places with health services. In the areas where fighting is fiercest, women may have to walk hundreds of miles to find anyone to tell that they have been attacked. Even if they can do so, it may be months or years after the assault. Many victims are killed by their assailants. Others die of injuries. Many do not report rape because of the stigma.

Congo's horrors are mind-boggling. A recent study by the Harvard Humanitarian Initiative and Oxfam examined rape survivors at the Panzi Hospital in Bukavu, a town in North Kivu province. Their ages ranged from three to 80. Some were single, some married, some widows. They came from all ethnicities. They were raped in homes, fields and forests. They were raped in front of husbands and children. Almost 60% were gang-raped. Sons were forced to rape mothers, and killed if they refused.

The attention paid to Congo reflects growing concern about rape in war. Historically the taboo surrounding rape has been so strong that few cases were reported; evidence of wartime rape before the 20th century is scarce. With better reporting, the world has woken up to the scale of the crime. The range of sexual violence in war has become apparent: the abduction of women as sex slaves, sexualised torture and mutilation, rape in public or private.




In some wars all parties engage in it. In others it is inflicted mainly by one side. Rape in wars in Africa has had a lot of attention in recent years, but it is not just an African problem. Conflicts with high levels of rape between 1980 and 2009 were most numerous in sub-Saharan Africa, according to Dara Kay Cohen of the University of Minnesota (see chart). But only a third of sub-Saharan Africa's 28 civil wars saw the worst levels of rape-compared with half of Eastern Europe's nine. And no part of the world has escaped the scourge.

The anarchy and impunity of war goes some way to explaining the violence. The conditions of war are often conducive to rape. Young, ill-trained men, fighting far from home, are freed from social and religious constraints. The costs of rape are lower, the potential rewards higher. And for ill-fed, underpaid combatants, rape can be a kind of payment.

**Widespread, but not inevitable**

Then consider the type of wars fought today. Many recent conflicts have involved not organised armies but scrappy militias fighting amid civilians. As wars have moved from battlefields to villages, women and girls have become more vulnerable. For many, the home front no longer exists; every house is now on the front line.

But rape in war is not inevitable. In El Salvador's civil war, it was rare. When it did occur it was almost always carried out by state forces. The left-wing militias fighting against the government for years relied on civilians for information. You can rape to terrorise people or force them to leave an area, says Elisabeth Wood, a professor at Yale University and the Santa Fe Institute, but rape is not effective when you want long-term, reliable intelligence from them or to rule them in the future.

Some groups commit all kinds of other atrocities, but abhor rape. The absence of sexual violence in the Tamil Tigers' forced displacement of tens of thousands of Muslims from the Jaffna peninsula in 1990 is a case in point. Rape is often part of ethnic cleansing but it was strikingly absent here. Tamil mores prohibit sex between people who are not married and sex across castes (though they are less bothered about marital rape). What is more, Ms Wood explains, the organisation's strict internal discipline meant commanders could enforce these judgments.

Some leaders, such as Jean-Pierre Bemba, a Congolese militia boss who is now on trial for war-crimes in The Hague, say they lack full control over their troops. But a commander with enough control to direct soldiers in military operations can probably stop them raping, says Ms Wood. A decision to turn a blind eye may have less to do with lack of control, and more with a chilling assessment of rape's use as a terror tactic.

Rape is a means of subduing foes and civilians without having to engage in the risky business of battle. Faced with rape, civilians flee, leaving their land and property to their attackers. In August rebel militias raped around 240 people over four days in the Walikale district of eastern Congo. The motives for the attack are unclear. The violence may have been to intimidate the population into providing the militia with gold and tin from nearby mines. Or maybe one bit of the army was colluding with the rebels to avoid being replaced by another bit and losing control of the area and its resources. In Walikale, at least, rape seems to have been a deliberate tactic, not a random one, says Ms Margolis.

At worst, rape is a tool of ethnic cleansing and genocide, as in Bosnia, Darfur and Rwanda. Rape was first properly recognised as a weapon of war after the conflict in Bosnia. Though all sides were guilty, most victims were Bosnian Muslims assaulted by Serbs. Muslim women were herded into "rape camps" where they were raped repeatedly, usually by groups of men. The full horrors of these camps emerged in hearings at the war-crimes tribunal on ex-Yugoslavia in The Hague; victims gave evidence in writing or anonymously. After the war some perpetrators said that they had been ordered to rape-either to ensure that non-Serbs would flee certain areas, or to impregnate women so that they bore Serb children. In 1995, when Croatian forces over-ran Serb-held areas, there were well-attested cases of sexual violence against both women and men.

In the Sudanese region of Darfur, rape and other forms of sexual violence have also been a brutally effective way to terrorise and control civilians. Women are raped in and around the refugee camps that litter the region, mostly when they leave the camps to collect firewood, water and food. Those of the same ethnicity as the two main rebel groups have been targeted most as part of the campaign of ethnic cleansing. According to Human Rights Watch, rape is chronically underreported, partially because in the mostly Muslim region sexual violence is a sensitive subject. Between October 2004 and February 2005 Medecins Sans Frontieres, a French charity, treated almost 500 women and girls in South Darfur. The actual number of victims is likely to be much higher.

**Tacit approval**

In the Rwandan genocide rape was "the rule and its absence the exception", in the words of the UN. In the weeks before the killings began, Hutu-controlled newspapers ran cartoons showing Tutsi women having sex with Belgian peacekeepers, who were seen as allies of Paul Kagame's Rwandan Patriotic Front. Inger SkjelsbÃ¦k, deputy director of the Peace Research Institute in Oslo, argues that Hutu propaganda may not have openly called for rape, but it certainly suggested that the Hutu cause would be well served by the sexual violation of Tutsi women. Jens Meierhenrich, a Rwanda-watcher at the London School of Economics, says that even if high-level commanders did not tell men to rape, they gave tacit approval. Lower-ranking officers may have openly encouraged the crime.

Out of Rwanda's horror came the first legal verdict that acknowledged rape as part of a genocidal campaign. After the conviction of Jean Paul Akayesu, a local politician, the International Criminal Tribunal for Rwanda said systematic sexual violence, perpetrated against Tutsi women and them alone, had been an integral part of the effort to wipe out the Tutsis.

For combatants who know little about each other, complicity in rape can serve as a bond. The Revolutionary United Front (RUF) in Sierra Leone, most of whose members say they were kidnapped into its ranks and then raped thousands during the civil war, is a case in point. Ms Cohen argues that armed groups that are not socially cohesive, particularly those whose fighters have been forcibly recruited, are more likely to commit rape, especially gang rape, so as to build internal ties.

For the victims and their families, rape does the opposite. The shame and degradation of rape rip apart social bonds. In societies where a family's honour rests on the sexual purity of its women, the blame for the loss of that honour often falls not upon the rapist, but the raped. In Bangladesh, where most of the victims were Muslim, the use of rape was not only humiliating for them as individuals but for their families and communities. The then prime minister, Mujibur Rahman, tried to counter this by calling them heroines who needed protection and reintegration. Some men agreed but most did not; they demanded sweeteners in the form of extra dowry payments from the authorities.

In Congo, despite the efforts of activists, rape still brings shame to the victim, says Ms Margolis: "People can sit around and talk about the importance of removing the stigma in the abstract, but when it comes to their own wives or daughters or sisters, it is a different story." Many are rejected by their family and stigmatised by their community after being raped.

There is little prospect of justice for the victims of rape. Mr Akayesu is one of the few people brought to book for rape in war. Though wartime rape is prohibited under the Geneva rules, sexual violence has often been prosecuted less fiercely than other war crimes. But the Balkan war-crimes court broke new ground by issuing verdicts treating rape as a crime against humanity. The convictions of three men for the rape, torture and sexual enslavement of women in the Bosnian town of Foca was a big landmark.

But in Congo the court system is in pieces. There have been fewer than 20 prosecutions of rape as either a war crime or a crime against humanity. The American Bar Association, which helps victims bring their cases to court in eastern Congo, has processed around 145 cases in the past two years. This has resulted in about 45 trials and 36 convictions based on domestic legislation, including a law introduced in 2006 to try and address the problem of sexual violence. Those who work with the survivors of rape in Congo have mixed feelings about the 2006 law. It has pricked consciences and made people more aware of their rights, concedes Ms Margolis. It creates a theoretical accountability that could help punish

perpetrators. But for women seeking justice, it has yet to have much impact. "There is still a glimmer of hope in people's eyes when they talk about the law. But the judicial and security systems need to be improved so that it can be applied better, or people may lose confidence in it," Ms Margolis says.

Huge practical problems beset the legal system in Congo, says Richard Malengule, head of the Gender and Justice programme at HEAL Africa, a hospital in Goma. People have to walk 300km to get to a court. There is no money and no training for the police. Even if people are arrested, they are often released within a few days, in many cases by making a deal with the victim's family or the court. Those that go to jail often escape within days. Many prisons have no door-or corrupt guards.

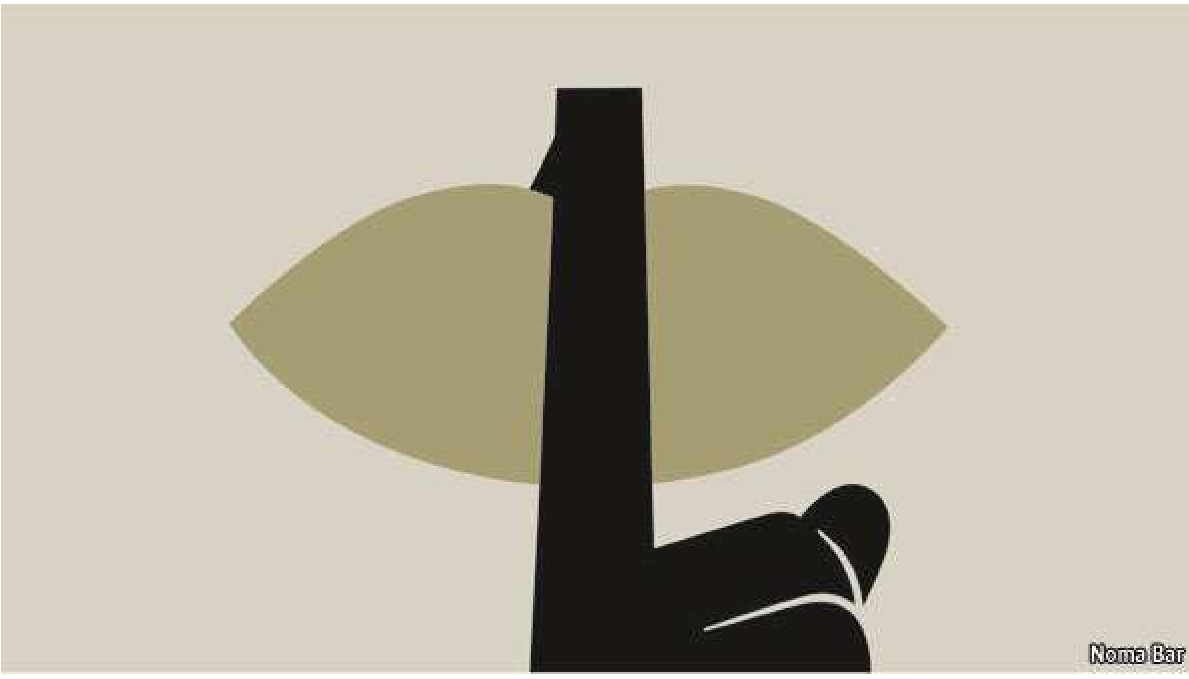
**Enduring effects**

Given the parlous state of Congo's judiciary, raising the number of prosecutions may not help. Some want more international involvement. Justine Masika, who runs an organisation in Goma seeking justice for the victims of sex crimes, says Congolese courts must work with international ones in prosecuting rape. But "hybrid" courts require some commitment from the local government; Congo's rulers do not show much commitment to tackling rape. The International Criminal Court is investigating crimes, including rape, in Congo but gathering necessary evidence is hard.

Raising global awareness is another avenue; it helps lessen the stigma. Various UN resolutions over the past ten years have highlighted and condemned sexual violence against women and girls and called on countries to do more to combat it. But worthy language will not be enough.

Worse, the UN has faced criticism for failing to protect Congolese civilians from rape. In the Walikale attack, one UN official worries that the body is not meeting its obligations to protect civilians. He accepts that in remote places it is hard for peacekeepers to reach civilians, but insists that this does not justify the UN's failure in Walikale. He is dubious, too, about the investigations into the incident. "All these interviews, these investigations, what have they achieved? The survivors are interviewed again and again and again? Where does that get them?"

Without the presence of the UN, atrocities would be even more widespread, says Mr Malengule. But in the long term, he says, more pressure must be put on Congo's government to tackle rape. At present, one aid worker laments, it just gets a lot of lip-service. The government would rather Congo were not known as the world's rape capital, but it shows little interest in real change.




Even when wars end, rape continues. Humanitarian agencies in Congo report high levels of rape in areas that are quite peaceful now. Again, it is hard to assess numbers. Figures for rape before the war do not exist. A greater willingness to report rape may account for the apparent increase. But years of fighting have resulted in a culture of rape and violence, says Mr Malengule. Efforts to reintegrate ex-combatants into society have been short and unsuccessful, with little follow-up to assess results. Add to that the dismal judicial system, and the outlook is grim.

It is bleaker still when you see how long rape's effects endure. Rebels seized Angelique's village in 1994. They slit her husband's throat. Then they bound her between two trees, arms and legs tied apart. Seven men raped her before she fainted.

She does not know how many raped her after that. Then they shoved sticks in her vagina. Tissue between her vagina and rectum was ripped, and she developed a fistula. For 16 years she leaked urine and faeces. Now she is getting medical treatment, but justice is a distant dream.

**Correction:** The original table in this piece was misworded. The third line should have referred to the Pakistani army, rather than the Indian army. Apologies. This was corrected on January 14th 2011.

**Slideshow**: Marcus Bleasdale talks about a selection of his photographs chronicling the impact of rape in war-torn areas of Africa

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A crowded car industry

# From Big Three to Magnificent Seven

Jan 13th 2011 | *DETROIT* | from PRINT EDITION

**America's carmakers are back. A posse of tough competitors is waiting for them**


FOR the past two years the Detroit motor show has been a dismal affair. But this year the parties were in full swing again. Helped by government bail-outs and with debt burdens lightened by bankruptcy, Chrysler and GM are back on their feet; Ford, the other member of Detroit's Big Three, is thriving. It took America's car industry 20 years and a world war to recover the three-quarters of production wiped out by the 1929 crash. By comparison, the aftermath of the latest recession has been surprisingly comfortable.

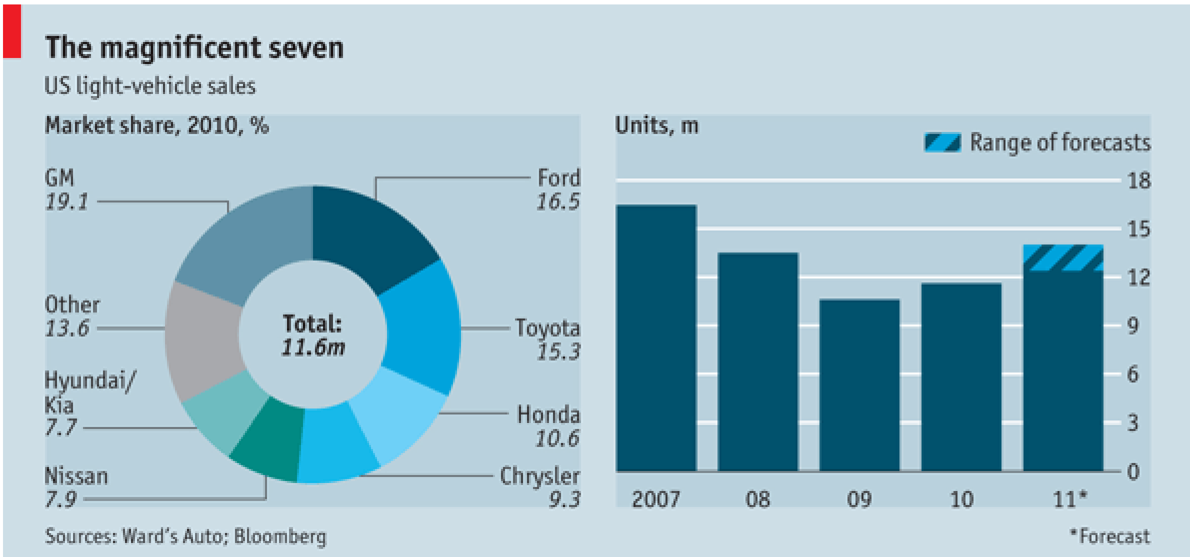
Ominously for the locals, though, the biggest splash on opening day was made by a Volkswagen saloon, which is to be built in a new factory in Tennessee. Europe's best big carmaker is taking aim at the heart of the American market for the first time in over 20 years. Its bold move is just one sign of growing fragmentation in a market once dominated by the Big Three and a small clutch of Japanese rivals.

The recession sent car sales in America skidding from 16.5m in 2007 to just over 10m in 2009 (see chart, below). Since then the ride has been fairly smooth. Sales in December were equivalent to an annual rate of 12.7m cars and light trucks (sport-utility vehicles and the like), the best unaided performance since September 2008 when Lehman Brothers collapsed and credit markets froze. Industry-watchers are predicting a 10% rise this year. The most optimistic forecast sales of 14m.

Analysts at Morgan Stanley, an investment bank, point to an improvement in the creditworthiness of buyers which is causing lenders to loosen their purse strings. Americans are even buying big, expensive vehicles again.

The 2008 crash allowed Detroit to push through changes that had long been blocked by unions and timid management. Capacity was cut drastically: Ford alone closed 17 factories and reduced employee numbers by over 40%. GM ditched brands such as Hummer and Saturn to focus on Chevrolet, Buick and Cadillac, while Ford got rid of all brands except Ford and Lincoln. Health care for company pensioners, long a millstone, was transferred to union-run trusts. New workers can now be hired at lower rates than those ramped up by the United Auto Workers during the boom years. Alan Mulally, Ford's chief executive, reckons his company can compete on price with factories opened in weakly unionised southern states by Japanese, South Korean and German carmakers. Ford may have made as much as $10 billion in profit last year.

The Big Three have changed, but their home market has changed even more. GM may still be the market leader; Ford's trusty F-150 pickup is still the bestselling vehicle. But Detroit no longer dominates its backyard. For the Big Three now read the Magnificent Seven. Toyota, Honda and Nissan have been joined by Hyundai and its sister brand Kia in a fragmented market where seven manufacturers each have more than 5% of the market (see chart). And an eighth is trying to join the club.




Volkswagen retreated from America in 1988 and has since relied on cars imported from Mexico or Germany. But the slumping European economy and the success of its rival BMW's Mini brand has nudged the manufacturer to make a full-scale re-entry into what is still the most profitable single car market in the world (though China is now bigger in volume terms). VW and its Audi offshoot sold 358,500 cars in America last year. The firm's boss, Martin Winterkorn, aims to triple sales by 2018 and plans to spend some $3 billion on boosting the group through such things as marketing and opening more dealerships. The Passat being built at the new $1 billion Chattanooga factory is a slightly longer version of a car that sells well in Europe.

Competition is particularly fierce in this "mid-range" market, where Toyota's Camry, Nissan's Altima and Honda's Accord have long dominated. Since petrol prices first rose above $3 a gallon in 2005 Detroit has been trying to reconquer the modest car market instead of relying on sales of expensive, high-margin SUVs and other gas-guzzlers. Ford is bringing in slightly Americanised versions of saloon cars that have been successful in Europe, while GM plans to do the same with versions of its German-designed Opels. Chrysler will import Italian technology from Fiat as the ties between the two companies strengthen.

They will face an old adversary. Quality problems at Toyota led to $48.8m in government fines and a recall of 4m vehicles in America alone, cheering the firm's domestic competitors. Toyota's embattled chief executive, Akio Toyoda, making his first visit to the Detroit show, admitted that the firm "did receive damage". But it would be foolish to underestimate the ability of the world's biggest carmaker to put its house in order: it still has the most efficient system for product development and manufacturing, even if it must focus for the moment on quality control. Mr Toyoda is attempting to inject some humility into the company's rigorous culture. For the first time it is offering customers discounts to increase sales.

The Japanese firm could learn a good deal from Hyundai and Kia. The South Korean firms suffered from reputations for poor quality when they entered the American market and relied largely on bargain prices to sell their vehicles. Under pressure from consumer magazines they gradually improved their quality and have won recognition from critics and customers. That jump in quality, as well as heavy marketing, has turned them into serious competitors. A glimpse of the

next challenger came from BYD, a Chinese firm which showed off a battery-powered car and promised to unveil its much-delayed American sales network soon.

Detroit's home team was not without its own triumphs at the show. GM's plug-in electric hybrid, the Volt, won the coveted North American Car of the Year award, while Ford won the award for best truck. GM also unveiled the Sonic, a new small car with which it hopes to reduce its dependence on big pickups and other trucklike vehicles. In a market where success is harder to come by and failure will be judged harshly, they had better keep winning prizes.

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Playboy

## Bunny hop

Jan 13th 2011 | *NEW YORK* | from PRINT EDITION

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**Hugh Hefner has retaken control of a shrunken empire**

Brand-building is a tough job

FRESH from announcing his engagement to a "Number one Girlfriend" 60 years his junior, Hugh Hefner proved he can still get the girl in business, too. On January 10th Playboy Enterprises accepted an offer from its 84-year-old founder for the 30% of its shares he did not already own. In doing so, the company spurned a proposal from FriendFinder, an internet firm that also owns *Penthouse* magazine, the longstanding rival of Mr Hefner's beloved *Playboy*. "The brand resonates today as clearly as at any time in its 57-year history," claimed Mr Hefner. Perhaps, but the business is not performing like it used to, and badly needs some corporate Viagra.

Mr Hefner's offer of $6.15 a share values Playboy Enterprises at a mere $207m, down from about $1 billion in its prime in 1999, when it briefly posed as a hot dotcom stock. In November the company reported a bigger third-quarter loss than a year earlier, as its revenues continued their seemingly remorseless decline, to $52m.

Ever since the internet made it easy for (still mostly) men to get hold of pornography without needing the excuse of compelling journalism to read, Playboy Enterprises has been desperately seeking an attractive new business model. It has proved rather better at extending its brand than most magazines. Television is currently the company's biggest earner,

accounting for around 40% of revenues. Lately there has been much optimistic talk about seducing the 18- to 35-year-old men who have increasingly been ignoring it by getting into online gaming. Scott Flanders, who will remain in the chief-executive position he took up in 2009, succeeding Mr Hefner's daughter Christie, hopes to grab some of this $20-billion-a-year market with action games featuring "Playboy-calibre women".

Last November the company opened a club in Macau, hoping to take advantage of what it says is its "luxury brand" status in Asia. A Playboy Mansion is planned to open there in 2012. This week Mr Flanders talked about his desire to develop Playboy Enterprises as a "brand management" company, licensing the Playboy name as well as the use of its legendary logo. There may still be money in the bunny.

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French newspapers

# Too close to power

Jan 13th 2011 | from PRINT EDITION

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**A malaise that goes back more than 300 years**

FRANCE'S second-largest economic daily, *La Tribune*, has suspended debt repayments while it seeks new investors. *Le Monde*, the country's greatest newspaper, found new investors in June but seems to have lost its way and is looking for a new editorial director. *Bakchich*, a satirical weekly, said on January 11th that it will close for want of funds.

France's national newspapers are shrivelling. The eight main national dailies together sell 1.2m copies a day-about the same as Britain's slumping *Daily Mirror*. News-stand sales in November were 10% lower than a year earlier. For *La Tribune* the fall was a disastrous 33%. The overall drop in sales, including postal and delivered subscriptions, was less steep.

Christophe Deloire, director of the Centre for Journalist Training in Paris, traces the problem to France's first newspaper, *La Gazette*, founded in 1631 under the auspices of Cardinal Richelieu. Since then "the French press has been dependent on power," he says; this has blunted its edge. That dependence was underlined in 2008 when President Nicolas Sarkozy summoned an "Estates General" of the press. More money was thrown at the problem, including free subscriptions for young readers and handouts for new printing machines. The downward trend continued.

Ownership presents further image problems. *Les Echos*, the top business daily, is owned by a luxury-goods magnate, Bernard Arnault. *Le Figaro* is owned by a defence baron, Serge Dassault. *Le Monde*'s three new investors are a banker, a web billionaire and another seller of luxury goods. Such proprietorial interests trouble some journalists, particularly given the papers' weak finances. "How could I write about banks at *Le Monde*?" says one who turned down an offer to work there.

*La Tribune*, which was owned by Mr Arnault until he acquired its rival, *Les Echos*, has perhaps a year to sort itself out. It has long been doubtful that there is room for a second business daily in France. *Le Monde* found new investors fairly quickly, as did *Liberation*, a left-wing daily, which in 2006 took just three months to bring in fresh investment. But *Liberation* had the advantage of an existing 39% shareholder, Edouard de Rothschild, who drew others. *La Tribune*'s managers talk of six, unnamed, interested investors.

As elsewhere, France's dailies face the challenge of the web. Mr Deloire criticises *Le Monde* for not integrating its print and online newsrooms. Some of his students are spending time at *Mediapart*, a web newspaper started by Edwy Plenel, a former editorial director of *Le Monde*. *Mediapart* is dedicated to anti-establishment scoops and reckons it can survive if it can sell 40,000 subscriptions at euro9 ($12) a month. Last June it hit the jackpot by breaking news of the Bettencourt affair, a scandal with links to the presidency. Subscriptions soared from 25,000 before June to 47,000 at the end of the year.

Is this the future? Even Mr Plenel seems doubtful. His model depends partly on scoops and on getting surfers to pay for online content, which has proved tough the world over. A year ago he explored the idea of a print edition, but France's unionised distribution system made the costs prohibitive. Last summer he briefly discussed a partnership with *La Tribune*, "but now I think it's too late," he says.

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User-generated content

# Wikipleadia

Jan 13th 2011 | *SAN FRANCISCO* | from PRINT EDITION

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**The promise and perils of crowdsourcing content**

And now they've bailed out Wales

IT MAY not stir up international outrage like its semi-namesake WikiLeaks, but Wikipedia sparks debate. The free online encyclopedia, which celebrates its tenth birthday on January 15th, is a symbol of unpaid collaboration and one of the most popular destinations on the internet, attracting some 400m visitors a month. It also faces serious charges of elitism.

Wikipedia offers more than 17m articles in 270 languages. Every day thousands of people edit entries or add new ones in return for nothing more than the satisfaction of contributing to the stock of human knowledge. Wikipedia relies on its users' generosity to fill its coffers as well as its pages. Recent visitors to the website were confronted with images of Jimmy Wales, a co-founder (pictured), and a request for donations. The campaign was annoying but effective, raising $16m in 50 days.

With its emphasis on bottom-up collaboration and the broad dissemination of knowledge, the online encyclopedia is in many ways an incarnation of the fundamental values of the web. But Wikipedia also reveals some of the pitfalls of the increasingly popular "crowdsourcing" model of content creation. One is maintaining accuracy. On the whole, Wikipedia's system of peer reviewing does a reasonable job of policing facts. But it is vulnerable to vandalism. Several politicians and TV personalities have had their deaths announced on Wikipedia while they were still in fine fettle.

Some observers argue the site should start paying expert editors to produce and oversee content, and sell advertising to cover the cost. Problems with accuracy "are an inevitable consequence of a free-labour approach", argues Alex Konanykhin of WikiExperts, which advises organisations on how to create Wikipedia articles. (The very existence of such outfits hints at Wikipedia's importance, as well as its susceptibility to outside influence.) The encyclopedia's bosses retort that such concerns are overblown and that taking advertising would dent its appeal to users.

That still leaves the site with another, bigger, headache in the form of declining engagement. The number of regular contributors to Wikipedia's English-language encyclopedia dropped from around 54,000 at its peak in March 2007 to some 35,000 in September 2010. A similar trend has been visible in some foreign-language versions of the encyclopedia.

Wikipedia's leaders say this reflects the fact that the large majority of subjects have now been written about. Perhaps, but some evidence suggests that neophytes are being put off by Wikipedia's clique of elite editors. One study by researchers at Xerox's Palo Alto Research Centre looked at the number of times editorial changes were subsequently reversed. It found that roughly a quarter of the edits posted by occasional contributors were undone in late 2008, compared with less than 2% of those posted by the most active editors. And it noted that this gap had widened considerably over time.

Mr Wales dismisses the notion of a clique as "silly". Sue Gardner, the head of the nonprofit Wikimedia Foundation that operates Wikipedia, notes that people have reason to be protective about high-quality content. Still, the organisation seems concerned. Ms Gardner wants to learn from sites such as Yelp and Facebook that are good at encouraging users to contribute. She hints that in future, contributors whose changes are undone may receive a message urging them to remain active on the site. Time, perhaps, to consult Wikipedia's entry on motivation-though it turns out to be one of the articles flagged as needing expert attention.

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The Indian Premier League

# Go fetch that

Jan 13th 2011 | *BANGALORE* | from PRINT EDITION

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**One of the world's most controversial sporting events is back on track**

Gautam Gambhir, $2.4m man

THE lobby of the Royal Gardenia, an "eco-friendly" five-star hotel, was crowded with television crews and photographers on January 8th and 9th. Bollywood stars and business tycoons were also on display, including Bangalore's "King of Good Times", Vijay Mallya, a flamboyant brewer and airline owner. They were shopping for cricketers to play for their respective teams in the Indian Premier League (IPL), a three-year-old contest that has transformed India's favourite game and transfixed the country. In a two-day player auction watched live on television by around 19m people, 127 cricketers were sold for $62m.

For the owners and the IPL's organisers, this was cause for relief. Since the conclusion of its third six-week season, last April, the league has been beset by feuding and scandal on an all-India scale. A high-profile minister, Shashi Tharoor, lost his job in a row over the finances of a new IPL team for which he had lobbied. The league's charismatic creator and boss, Lalit Modi, was charged by India's cricket board with taking multi-million-dollar kickbacks and other misdemeanours. (Both men deny wrongdoing.) Two of the IPL's ten teams, based in Rajasthan and Punjab, were accused of irregularities in their ownership and expelled. They were reinstated last month, at least temporarily, on the courts' say-so. On the eve of the auction, there were rumours it would be cancelled and the next season, due in April, postponed. But the brouhaha now seems overdone. The IPL, which is estimated to be worth over $4 billion, is probably too big to fail.

Nothing excites Indians like cricket. A big international game-between India's team and Pakistan's, say-can attract hundreds of millions of television viewers. That has allowed the cricket board, which claims a monopoly on the sport in India, to charge increasingly large sums for broadcast rights. In 2005 its revenues were around $100m; in 2007, even before the IPL's launch, they were about $220m. But international cricket is a risky business: when India's cricketers are knocked out of a tournament early, most Indian viewers switch off. The IPL was partly designed to address this. A domestic tournament, which uses a short, fast-paced form of the game called Twenty20 and brings many of the best foreign players to India, it ensures that an Indian team always wins.

The first IPL broadcast rights were sold to World Sports Group, a Singapore-based firm, for over $1 billion-in retrospect, a bargain. Last year 143m viewers tuned in, an increase of 20m on the previous year. And IPL advertising revenues at MSM Satellite (Singapore), a division of Sony, which owns the India broadcast rights, went up by 60%. "The IPL is the single biggest event in India today, sporting or otherwise," says Manjit Singh, MSM's boss. "When it's on, we dominate."

For advertisers, the IPL's audience is mouth-watering. It is dominated by young, middle-class city-dwellers, who are among India's most free-spending consumers. Remarkably, around 45% of viewers are women. They are attracted not only to the IPL's breathless sort of cricket but also to the glamour that attends it. Thus the Bollywood stars, three of whom

have stakes in IPL teams, including one of the biggest, Shahrukh Khan. So, too, the tycoons, many of whom, including Mr Mallya, have similarly starry status among middle-class Indians. In an economy expanding by about 8% a year and with a cable-television market growing at a similar clip, the league's prospects appear gilded. According to Mr Mallya, "the revenues generated by the league can only go one way, north-and go rapidly north."

If so, he will do well. The league is a franchise arrangement, whereby owners pay the cricket board a one-off royalty for their teams, and in return are guaranteed a share of the league's main revenues, including from television rights. They can also collect money from ticket sales and merchandising. Because it is a "closed" league-like America's National Football League and unlike England's Premier League football-teams never risk relegation. A salary cap of $9m per franchise per year helps them control costs.

Most teams still lose money. Yet owners are getting, or eyeing, diverse benefits from their investments. For Mr Mallya cricket is a useful form of marketing. India puts strict limits on advertising alcoholic drinks; his Royal Challengers Bangalore team is named after one of his whisky labels. For the GMR Group, an infrastructure giant, owning the Delhi Daredevils team affords it a useful opportunity to impress India's central government. The value of the franchises is rocketing. Two new teams, based in Kochi and Pune, were auctioned last year for a combined total of more than $700m-roughly what the pre-existing eight teams fetched together in 2008.

The commercial juggernaut could yet splutter. Increasing the number of teams, and thereby extending the season from 60 games to 74, could prove too much for some viewers. Stretching the season into May has certainly put the players at risk of heat exhaustion. And the board, an opaque and irascible outfit, is only ever a whim away from creating tumult. Yet after the auction, in which two cricketing brothers born of humble Muslim stock won contracts worth a combined $4m per season, the IPL's way looks smoother. "It's as if the league had been relaunched," says Manoj Badale, a relieved co-owner of the Rajasthan Royals, one of the two teams expelled and currently reprieved. "IPL4 is happening. It feels great to be back."

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Japanese business

# Over here!

Jan 13th 2011 | *TOKYO* | from PRINT EDITION

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**Japan's government is trying to attract business investment. Really**

WHEN the Japanese government revealed a hefty "new growth strategy" in June, the response was sceptical. *Yomiuri Shimbun*, the country's biggest newspaper, relished reporting the "21 key national strategy projects" and "about 330 policy items" up for change. They ranged from promoting clean energy and overseas infrastructure projects to attracting medical tourists and foreign firms.

Since then the ruling Democratic Party of Japan has continued to falter. The popularity of the prime minister, Naoto Kan, has sunk as low as 21%, curtailing his ability to push reforms. And the government has placed the most controversial ideas on hold, at least publicly. Yet substantial changes are quietly taking place, a few of which have already borne fruit.

The most prominent change is in tax policy. Politicians have talked for years about lowering the corporate tax rate, at 40% the highest in the rich world. Companies argue they cannot compete against rivals in countries like South Korea, where the tax is just 24%. Last month Mr Kan promised to slash five percentage points off the tax in the 2011 budget, which goes before parliament in March.

To encourage overseas companies to set up regional headquarters and research facilities, the trade ministry is also proposing to lower the combined national and local tax on foreign firms to between 20% and 29% for five years. Long accused of giving subtle, preferential treatment to domestic players, Japan is poised to discriminate openly in favour of foreigners.

The government has stepped up its economic diplomacy, too. Having lost two large nuclear-power contracts in 2009 and 2010 to Russian and South Korean bidders with strong government backing, Japan has put its politicians on the road. This month ministers have hawked high-speed trains in Florida and touted a water-treatment facility in Riyadh. A state-backed lender, the Japan Bank for International Co-operation (JBIC), has opened the financing spigot. Such efforts seem to be paying off. Vietnam has said it will turn to Japanese technology for the second phase of its nuclear programme, which is worth about Â¥1 trillion ($12 billion). Turkey, heavily lobbied by Japan, is in talks to conclude a nuclear-power contract that had been expected to go to South Korea.

As an aged, technologically advanced country, Japan ought to be a global leader in medical care. On January 7th the government established a department within the Cabinet Office to enhance the competitiveness of Japan's medical business, including research, devices and drugs. It has also created a new six-month medical visa for foreigners and their caregivers that is designed to draw health tourists.

Overall, the government wants to create 5m new jobs by 2020, rake in Â¥118 trillion, and bump GDP growth up to more than 3% from its long-term average of 1%. That appears unrealistic. Even after cuts, Japan's corporate taxes are still far higher than in other countries. And it is not clear that the government will have the clout to push through the toughest initiatives, such as joining a regional free-trade agreement.

Still, the fact that some action has taken place counts as a positive sign. It marks a remarkable maturation for the DPJ, which strode into office 16 months ago clutching a sheaf of anti-business policies such as reversing the privatisation of the post office (the world's biggest bank by deposits), creating a three-year debt moratorium for small firms and introducing unwieldy targets for carbon-emission reduction. But crisis eventually concentrates minds.

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The art market

# Look, don't touch

Jan 13th 2011 | from PRINT EDITION

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**Rather slowly, the buying and selling of art and antiques is going online**


The real one will cost you

DOES the world need another international art fair? With ARCOmadrid in February, Tefaf in March, Art Basel in June, Frieze in October, Miami in December and a dozen fringe fairs in between, the travel schedule of art and antique dealers has become impossibly busy. The annual circuit is costly, too: dealers have to pay for their booths as well as the cost of travel, shipping and Chardonnay.

The VIP (for Viewing in Private) Art Fair, which will open on January 22nd and run for a week, promises to cut costs dramatically for buyers and sellers of contemporary art: it will take place exclusively in the virtual world. VIP was created by James and Jane Cohan, a couple of New York art dealers who teamed up with two internet entrepreneurs three years ago when the art world was about to be hit by recession.

At the last count 138 galleries from 30 countries had signed up. They range from established shops like London's White Cube and New York's David Zwirner to relative newcomers such as i8 in Reykjavik. Gallery owners can choose between three sizes of virtual booths for their wares, for about one-fifth as much as a traditional art fair charges. Mere browsing is free, although visitors must pay for access to an instant-messaging system, price lists and dealers' private rooms.

After logging in visitors will arrive in an atrium displaying a map of the exhibition with the names of participating galleries. A click on a gallery name will lead them into the gallery's booth where they can view pictures from different angles and distances and zoom in to inspect them closely-not often possible with the photographs art dealers and auction houses put on their own websites, and impossible in a printed catalogue. For those who prefer to wander, the fair will have three "exhibition halls". Top artists such as Damien Hirst and Takashi Murakami will be grouped in the Premier hall, whereas galleries showing eight works by a single artist will be assembled in the Focus hall and galleries with up-and-coming artists will be in the Emerging hall.

Dealers and auction houses have approached the internet warily. Christie's, one of the two big international fine-art auctioneers, launched LIVE, an online bidding system, in 2006. Sotheby's, its main rival, launched BidNow only last year after the failure of two early forays into online auctions in partnerships with the technology giants Amazon and eBay at the beginning of the last decade.

In 2010 Christie's sold some $114m worth of art and antiques online, amounting to 16% of its lots. Yet this represented only 3% of total sales. Christie's clients bid on the internet for commoditised items such as watches, wine, prints and jewellery. For the auctioneer's most expensive offerings-paintings, sculptures and antiques-they telephoned or went to the saleroom and bid at auction by raising their arms, as they have done for centuries.

The real advantage of Christie's digital offering is that it draws new customers: more than half of the firm's online bidders last year had never registered for a Christie's auction before. Attracting new customers is also the main reason why dealers signed up for the VIP art fair. They expect visitors mainly to gather information about their offerings and follow up with a phone call. For reasons of privacy, no sale will be conducted on the fair's site. "Our expectations for actual sales during the art fair are modest," says Ms Cohan.

Michael O'Neal, head of digital media at Christie's, thinks the success of the new fair will depend on whether it can build a brand and whether the participating dealers will get enough new leads from the fair's visitors that result in actual sales. VIP has one selling point that traditional art fairs cannot offer: it can show huge outdoor sculptures and other art that cannot be moved easily.

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Schumpeter

# Logoland

Jan 13th 2011 | from PRINT EDITION

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**Why consumers balk at companies' efforts to rebrand themselves**


ONE of last year's most interesting business books was Clay Shirky's "Cognitive Surplus: Creativity and Generosity in a Connected Age". The rise of the affluent society has left people with lots of time and talent to spare, Mr Shirky argues. For decades they squandered this cognitive surplus watching television. Today, thanks to the internet, they can also channel it into more productive pursuits.

For a surprising number of people these productive pursuits involve worrying about companies' logos. Howard Schultz, the boss of Starbucks, recently announced that his company would mark its 40th anniversary this March by changing its logo a bit. The words "Starbucks" and "coffee" will disappear. And the mermaid, or siren, will be freed from her circle.

Starbucks wants to join the small club of companies that are so recognisable they can rely on nothing but a symbol: Nike and its swoosh; McDonald's and its golden arches; Playboy and its bunny; Apple and its apple. The danger is that it will join the much larger class of companies that have tried to change their logos only to be forced to backtrack by an electronic lynch mob.

As soon as the change was mooted, bloggers started blogging and tweeters began to tweet. Starbucks.com has been inundated with complaints, such as "focus on your core business and forget this foolishness". Fox News, not normally an authority on corporate marketing strategy, has likened the proposal to Prince's decision, in 1993, to swap his name for an unpronounceable symbol, an action he reversed seven years later. The protesters have plenty of success stories to inspire their efforts. Gap, a clothing retailer, abandoned a new logo in October after a week of concentrated online hazing. Tropicana (which tried to replace its straw-in-an-orange logo with a picture of a glass of orange juice) and Britain's Royal Mail (which renamed itself Consignia) held out a bit longer but eventually had to retreat.

Why do people get so upset about such changes? An obvious reason is that so many logos and names are either pig ugly or linguistically challenged. Think of BT's "piper" logo, which looked like someone drinking a yard of ale and disfigured all things BT-related for 12 years (admittedly, Britain's incumbent telecoms firm was not too popular to begin with); or the SciFi channel's decision to call itself SyFy-a name that raises the spectre of syphilis.

Moreover, the people who spend their lives creating new logos and brand names have a peculiar weakness for management drivel. Marka Hansen, Gap's president for North America, defended the firm's new logo (three letters and a little blue square) with a lot of guff about "our journey to make Gap more relevant to our customers". The Arnell Group explained its $1m redesign of Pepsi's logo with references to the "golden ratio" and "gravitational pull", arguing that "going back-to-the-roots moves the brand forward as it changes the trajectory of the future".

Ghastly stuff, to be sure. But why do aesthetically sensitive consumers harry companies to go back to old logos rather than simply shifting their loyalties elsewhere? One answer is that people have a passionate attachment to some brands. They do not merely buy clothes at Gap or coffee at Starbucks, but consider themselves to belong to "communities" defined by what they consume. A second reason is that the more choices people have, the more they seem to value the familiar. These days there are so many choices available to Western consumers-the average supermarket stocks 30,000 items and America's patent and trademark office issues some 200,000 patents a year-that they are in danger of being overwhelmed. *Homo economicus* may be capable of carefully considering all available products. But poor, fumbling *Homo sapiens* seizes on logos as a way of creating order in a confusing world.

The debate about logos reveals something interesting about power as well as passion. Much of the rage in the blogosphere is driven by a sense that "they" (the corporate stiffs) have changed something without consulting "us" (the people who really matter). This partly reflects a hunch that consumers have more power in an increasingly crowded market for goods. But it also reflects the sense that brands belong to everyone, not just to the corporations that nominally control them.

**They want your opinion, as long as it's positive**

Companies have gone out of their way to encourage these attitudes. They not only work hard to create emotional bonds with consumers (Victoria's Secret is one of many firms, including *The Economist*, that encourage customers to "like" them on Facebook). They involve them in what used to be regarded as internal corporate operations. Snapple asks Snapple-drinkers to come up with ideas for new drinks. Threadless encourages people to compete to design T-shirts.

Starbucks has been in the forefront of this consumer revolution. It consults consumers on everything from the ambience of its stores to its environmental policies. It emphasises that it is not just in the business of selling coffee. It sells entry to a community of like-minded people (who are so very different from the types who get their coffee from Dunkin' Donuts or McDonald's) gathered in a "third place" that is neither home nor work.

The company's new logo hints at a big ambition. Mr Schultz wants to burst asunder the bonds created by Starbucks's humble origins as a coffee shop. Some of his cafes are to sell alcohol as well as coffee. Many more Starbucks-branded goods are to appear in supermarkets. Starbucks is to become a force in the emerging world as well as the emerged. Such changes would be difficult even for an old-fashioned corporate dictatorship. Mr Schultz is about to discover whether they are possible for a company that has made such a fuss about giving power to its customers.

Economist.com/blogs/schumpeter

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# Correction: PayPal

Jan 13th 2011 | from PRINT EDITION

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PayPal was not formally banned in China, as we implied in a recent article ("China's king of e-commerce", January 1st). However, between 2005 and 2010 a draft law was circulated, threatening to ban majority foreign-owned payments firms. This had the effect of inhibiting the company's participation in the Chinese market.

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The euro area's debt crisis

# Bite the bullet

Jan 13th 2011 | from PRINT EDITION

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**In the first of three articles on the euro zone's sovereign-debt woes, we present our estimate of the burdens on the currency club's four most troubled members**


THE euro zone's strategy for tackling its sovereign-debt crisis is failing. A makeshift scheme was put in place in May to help countries that cannot otherwise borrow at tolerable interest rates. That lowered but did not remove the risk that a country may default for want of short-term funds. But the bond market's nerves have been shredded again by the likelihood that from 2013, when a permanent bail-out mechanism is due to be in place, it will be easier to restructure an insolvent country's debts. More worrying still for private investors, this seems set to give official creditors preference over others.

As a result, bail-outs are making private investors less rather than more keen to hold a troubled country's bonds. As old debts are refinanced and new deficits funded by the European rescue pot and the IMF, the share of such a country's debt held by official sources will steadily rise. That will leave a shrinking pool of private investors to bear losses if debts are restructured. And the smaller that pool becomes, the larger the loss that each investor will have to accept. Bond purchases by the European Central Bank (ECB) aimed at stabilising markets have further diminished the stock in private hands.

This perverse dynamic argues for a restructuring of insolvent countries' debts sooner rather than later. But when is a debt burden too heavy to be borne? A first indicator against which to make that judgment is the ratio of gross public debt to GDP. Most rich economies, including the euro area's most troubled, have large budget deficits and so will be adding to their debts for years. Today's toll is not so important. What matters is how big the debt burden will be when it stabilises.

Column 2 of the table below shows *The Economist*'s estimates of the likely burden for the four most beleaguered euro-zone countries. To keep our projections as simple and objective as possible, we have imposed identical (and thus necessarily stylised) assumptions about growth and interest rates on all. Because all four countries suffer from a lack of competitiveness, a recovery in real GDP in the face of fiscal austerity will probably require a drop in wages and prices. For that reason, we assume that nominal GDP falls before recovering to its 2010 level. The interest rate on new debt is pegged at 5.25%, a bit less than Ireland will have to pay on its rescue funds from the European Union and the IMF.

**The reckoning**

% of GDP (unless stated)

| | Gross government debt | | Primary budget adjustment, | Net international-investment | % of gov't bonds | Ten-year gov't-bond |
|---|---|---|---|---|---|---|
| | 2010 est | 2015 f'cast | 2010-15 f'cast | position, 2009 | held abroad* | yield†, % |
| Greece | 140.2 | 165 | 10 | -89.1 | 58.0 | 11.3 |
| Ireland | 97.4 | 125 | 13 | -102.5 | 54.2 | 8.3 |
| Portugal | 82.8 | 100 | 8 | -113.2 | 66.0 | 6.8 |
| Spain | 64.4 | 85 | 10 | -95.7 | 38.7 | 5.5 |

Sources: *The Economist*; European Commission; IMF; Citigroup; Thomson Reuters    *Q3 2010 †January 12th 2011

We assume that it takes five years of tax increases and spending cuts for each country to reach a primary budget surplus (ie, excluding interest payments) large enough to stabilise its ratio of debt to GDP. The required austerity varies: Ireland has already endured a lot of pain but still has most to do (see column 3).

**The depth of the mire**

To avoid charges of spurious accuracy, we have rounded down our estimate of the stable debt burden to the nearest five percentage points. On this basis Greece ends up with a debt-to-GDP ratio of 165% by 2015. Ireland's projected burden is 125%, Portugal's 100% and Spain's 85%. Only Japan has a larger burden than Greece, and its government can fall back on a big stock of liquid assets and wealthy domestic savers who hold almost all public debt. Even at the subsidised interest rates we assume, Greece would pay 8-9% of its GDP in interest by 2015, mostly to foreigners. For a small country with a shaky economy, that is unbearable: Greece looks bust.

Spain, though, is probably solvent. On our estimate its prospective debt burden is similar to those of "safe" France and Germany today. A worst-case scenario in which the government had to cover enormous losses at the country's banks (see article) would leave its debt burden close to, but not above, the limits of what Spain could sustain at current interest rates.

Ireland and Portugal are less clear-cut cases. A public-debt ratio in three figures might be tolerable at interest rates of 4% or so, but would be too costly to bear at today's bond yields. Two other euro-zone countries, Belgium and Italy, already have public debt of 100% of GDP or more and do not (yet) suffer painfully high yields. But both are quite near to primary budget balance and depend far less on foreign capital than Greece, Ireland or Portugal (column 4). Belgium's economy is small but closely aligned with Europe's strong core. Like Japan, Italy benefits from scale. Its large bond market attracts investors who prize liquidity; its public revenues are backed by a big, diversified economy.

Debt burdens may turn out to be higher. Ireland's government is using its liquid assets to bolster its banks' capital. But if losses on property loans and mortgages are worse than hoped, they could add up to 10% of GDP to our estimate of its debt burden. Portugal says its banks are sound. But the combination of capital inflows and low productivity hints at wasteful investments and a lurking bad-debt problem.

Explore our

Greece provides the best example of why it is wise to write down unbearable debts sooner rather than later. Investors typically take losses of one-third to one-half of the value of bonds when sovereign debts are restructured. Greece would need to halve its debts to reduce its burden to a tolerable 80% or so of GDP. If the pain were delayed until the end of 2013 its debts would have to be written down by euro185 billion ($239 billion) on our reckoning. Were official creditors repaid in full, private investors would be left with nothing: only euro183 billion of the Greek bonds issued before the bail-out would mature after 2013, according to Bloomberg. (That is unlikely. In past restructurings bilateral official creditors, but not the IMF, have taken a hit. Still, the longer the delay the more private investors lose.)

A Greek default would be the first by a rich country since 1948. It would be shocking but feasible. Restructurings by several poorer ones, from Uruguay to Belize, provide a legal case history for how to do it. Two factors may make it easier. First, the bulk of "peripheral" Europe's debts are issued under local law, which some lawyers say can be changed retroactively to add clauses binding all creditors to a deal agreed on by a big majority. Second, the ECB could induce commercial banks to seek a swift agreement by refusing to accept "old" bonds as collateral. The lawyers think a Greek restructuring could be completed in six months. It must be done eventually. It would be better not to delay.

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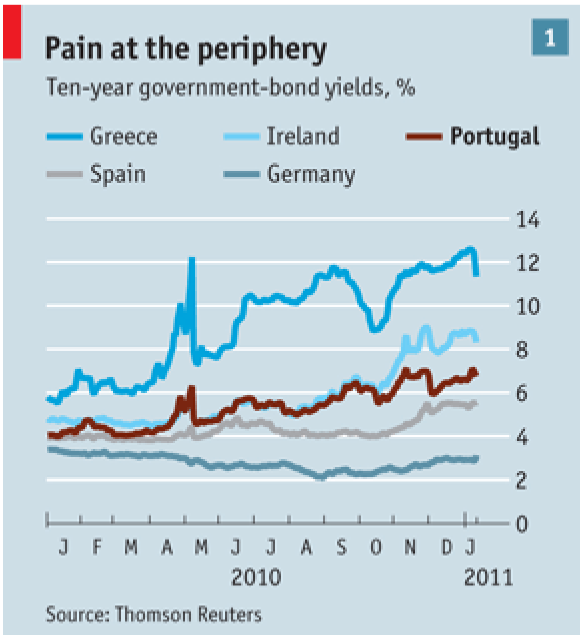
Portugal's economy

# Still scary

**Portugal has looked increasingly in need of a bail-out. Firm demand for a bond auction this week cannot mask deep problems with its public finances**

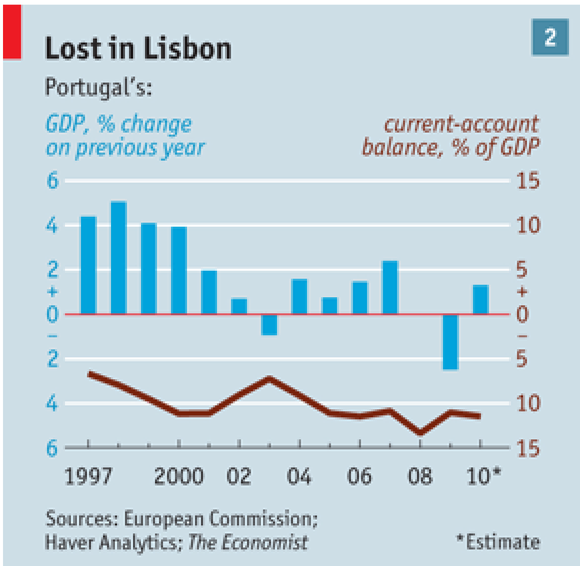
FILM-INDUSTRY lore has it that small-budget movies have a better chance of commercial success if they avoid clashing with the release of big-studio blockbusters and if they can generate lots of initial audience interest. A similar principle applies to small and indebted countries that need to raise a lot of money in a crowded bond market. A successful first auction of the year reassures investors; and early fund-raising is advised to avoid the rush of bigger countries to the market.

The buzz about Portugal's first bond auction of the year, on January 12th, had been so bad that even a sale at steep interest rates could be hailed as a triumph. Portugal met its target of euro1.25 billion ($1.62 billion) by selling bonds maturing in 2014 and 2020. Both offerings were oversubscribed. Fernando Teixeira dos Santos, the finance minister, spoke afterwards with the relief of a director whose new film had opened well. "The success of today's issue shows that Portugal has the necessary conditions to finance itself in the market at prices that are not only acceptable, but favourable in the current climate," he gushed. About 80% of the bonds were bought by foreign investors, he said, putting paid to suspicion that the issues had been sold to local banks.




But Portugal paid dearly for its success: the yield on the June 2020 bond was a whopping 6.7%. Granted, that was lower than the 7% at which ten-year bonds had traded earlier in the week (see chart 1), before reports of heavy purchases by the European Central Bank (ECB) pushed the yield down. But it is unsustainable for a country whose public debt is high and rising. Unless its borrowing costs plummet, Portugal will eventually have to seek rescue funds from its euro-zone partners and the IMF, as Greece and Ireland have already been obliged to do.

Portugal insists it does not share those countries' weaknesses, even if it too is small, sits at the fringe of the euro zone and has rickety public finances. Greece's main sin was fiscal laxity, Ireland's an almighty property binge. Both countries enjoyed fast GDP growth when credit was cheap. Portugal was different. It had a brief growth spurt in the run-up to joining the euro in 1999, as its borrowing costs fell. Its main frailty has been a steady loss of wage competitiveness, which began in the 1990s. This is reflected in a stubbornly large current-account deficit and a lost decade for the economy (see chart 2). Feeble GDP growth has made it hard to keep public finances on track. The budget deficit has averaged 4.6% of GDP in the past decade.




The country has also had some bad luck. In the 1990s the Uruguay round of world trade talks lowered tariffs on cheap textile imports from Asia. That hurt Portugal, then the European Union's sweatshop. China's entry to the World Trade Organisation in 2001 put further pressure on Portuguese firms. Attempts to move up the export value chain have been frustrated. A big Volkswagen car factory that opened near Lisbon in 1995 is said to be one of the company's most productive. But the expansion of the EU in 2004 diverted that sort of foreign direct investment away from Portugal towards eastern countries closer to Europe's industrial heartland.

All the while a steady inflow of cheap credit has pushed the country's net foreign debts to more than 100% of GDP. Much of the foreign borrowing is funnelled through Portugal's banks, whose credit lines depend on the standing of the state. The banks have been all but frozen out of capital markets since Portugal's sovereign debt was downgraded last spring, and are now heavily reliant on the ECB.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The national central bank has said that Portugal's banks are "resilient and well capitalised". Even so, there is a nagging fear that a country that has seen such huge capital inflows may not have used all the money wisely. One source of concern is Portugal's fetish for infrastructure. Urban rail systems have been built. New toll roads and ports were deemed necessary to address a weakness in the economy-its distance from Europe's main markets. Low rates of traffic suggest that some of these projects are unprofitable.

Some local analysts believe radical economic surgery to put exporters first is needed, so that Portugal can service its overseas debts. That would require a faster relaxation of stringent rules on hiring and firing, as well as dismantling of the sector-wide pay deals that keep labour costs high. It would also mean deregulation of service industries, whose elevated charges raise exporters' costs. The government has made some reforms but at a leisurely pace.

Modest achievements are talked up. Jose Socrates, the prime minister, said this week that Portugal's 2010 budget deficit would fall "clearly below" the government's target of 7.3% of GDP. Portugal was one of the few EU countries to cut its deficit by more than two percentage points in 2010, he said. Yet revenues booked from the transfer of Portugal Telecom's pension funds to the state explain much of the improvement. The dilatory pace of fiscal consolidation is unlikely to assuage investors for long. The auction's success may offer only temporary respite. Investors in the euro zone's bond markets have seen the film before.

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The state of Spanish banks

# Under siege

Jan 13th 2011 | *MADRID* | from PRINT EDITION

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**Quantifying the difficulties of a country's banking system**

Lean times ahead

SPAIN'S public debt, less than two-thirds of GDP last year, is not especially large. Yet financial markets fear that its government may, like Ireland's, have to find enormous sums to support the country's banks. The funding markets briefly welcomed some Spanish lenders after European stress tests last July. But doubts about the financial system have resurfaced with vehemence. Spanish banks, and their regulator, are feeling hard done by.

Only the strongest banks have access to wholesale markets, and at high cost. This year the system is due to redeem some euro90 billion ($116 billion) of debt, 45% of it by the two largest banks, estimates Barclays Capital. Banks continue to reduce their reliance on European Central Bank funds, thanks to improved access to the short-term repurchase ("repo") market. But tapping stable, longer-term financing is essential.

Perception is much worse than reality, says Miguel Fernandez OrdoÃ±ez, the governor of the Bank of Spain. He reckons the country's unlisted savings banks will need no more government-assisted capital this year than the euro10.6 billion already committed by the state's euro99 billion Fund for Orderly Bank Restructuring (FROB).

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Investors think that looks optimistic. The debate in the market is not about whether Spanish lenders will need more capital, but about how much. The list of worries is long. Concerns about the banks affect sovereign debt, which in turn affects the banks in a vicious circle. Banks' profitability is sinking, partly because lending margins are being squeezed by a scramble for deposits as a source of stable funding. Savings banks (*cajas*) are undergoing a thorough restructuring: complex mergers to cut costs have shrunk their number from 45 to 17.

The biggest source of concern remains Spain's housing bust. Official data show a market deflating lethargically, with prices only 12.8% below their peak. Ireland's spectacular bail-out of its banks, just months after they passed the stress tests, also rattled investors.

The parallels with Ireland are overdone: Spain's biggest banks, unlike Ireland's, are serious businesses. Still, Spanish banks have euro323 billion (the equivalent of 31% of GDP) in loans to property developers. Add in construction, and the exposure rises to 42% of GDP. By the end of 2010 Spanish banks had already made euro87 billion in provisions for bad loans.

There is no consensus on how much more capital is needed. Moody's, a ratings agency, estimates that banks may require another euro17 billion to push their tier-1 ratio to 8%. UBS says that they could need up to euro120 billion to regain the confidence of funding markets.

What would a doomsday scenario look like? Taking the Bank of Spain's basic "adverse" scenario and adding an Irish-scale calamity from loans to developers and builders, the banking system's gross losses would be euro270 billion, about euro60 billion higher than the central bank's figure. If lenders then made only half of the profits and capital gains in the Bank of Spain's scenario, they would have to find euro140 billion in new capital, or 13% of GDP, to achieve a tier-1 ratio of 10%. Relative to the size of the economy, this is still far less than the cost of the Irish bail-out.

The actual exposure to pure property development is smaller than the official numbers suggest, says Arturo de Frias, an analyst at Evolution Securities, because of the way loans are classified. He thinks the banks can absorb losses through their ongoing profits, while the *cajas* will need to raise around euro50 billion of new capital.

The Bank of Spain has asked lenders to disclose quarterly details on exposure to property, including collateral, starting with their annual results for 2010. Any sign that the *cajas* can raise money without government support would also help. Bankers are expecting a few more mergers this year. A change in the law has made it easier for outsiders to invest. But with listed Spanish banks already cheap, *cajas* would have to sell shares for a song to attract interest.

The Bank of Spain says it wants to minimise the use of public money, and the FROB has raised just euro12 billion so far. Time may yet prove Mr OrdoÃ±ez right. But if doubts persist, for both banks and sovereign, he may not have much time.

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Soul-searching at Goldman Sachs

# Awaken the giant within

Jan 13th 2011 | *NEW YORK* | from PRINT EDITION

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**Goldman's business-standards review is not all guff. But don't expect the firm to change much**

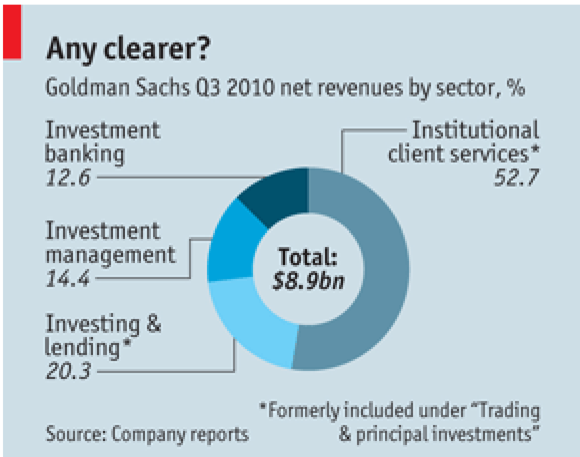

AMERICANS are notoriously obsessed with books about self-improvement. Now Goldman Sachs has added to the literature with a much-awaited report on its business practices. The document is seen within the firm as Goldman's biggest cultural moment since its stockmarket flotation in 1999. With 39 recommendations, spanning everything from financial disclosure to conflicts of interest and employee incentives, it is certainly sweeping. Its depth, however, is open to question.

Such a public self-examination cannot have been easy for a firm proud of having weathered the financial crisis well. But it was that very success, and Goldman's related closeness to government officials and politicians, that forced it to show it was not indifferent to criticism of its clever but sometimes controversial ways of doing business. Being cosy with well-placed alumni proved "a dangerous place to be", Lloyd Blankfein (pictured), Goldman's chief executive, admitted this week. The biggest blow to the investment bank's reputation was the perception, confirmed by a recent survey of more than 200 clients, that it put its own interests ahead of those of the customers that it supposedly served.

Mr Blankfein rose to the top arguing that wearing lots of hats-underwriter, adviser, marketmaker, investor-could be a competitive advantage if the firm managed its potential conflicts carefully. But it was not always meticulous, and thus undermined its claim to be "long-term greedy", or willing to forgo profit today rather than risk alienating a client and missing out on a lot more business tomorrow. Its reputation hit bottom when it was forced to settle with regulators for $550m over a structured mortgage transaction that produced big gains for one client but crippling losses for another.

Goldman executives talk euphemistically about the need to "reinforce" its values. But on the management of conflicts the report seeks overhaul rather than reinforcement. From now on, for instance, structured deals will have to be approved by bankers who care what clients think, not just the traders who put them together. "They recognise that the time has come for adult supervision," says a former Goldman partner. Some point to a recent deal to broker the sale of a chunk of privately held Facebook to clients, while investing alongside them, as proof that the old conflict-ridden model remains in place. The firm counters that although it has multiple roles, they have been made crystal-clear.

In future the firm will treat different sorts of clients differently. In the past it took the view that the institutions and rich individuals it served were all big boys who understood the principle of buyer beware. Henceforth they will be in one of three groups: "professional" investors; less sophisticated institutions, such as municipalities; and wealthy retail clients. The last two will get more hand-holding. Goldman might intervene more promptly if, for instance, a swap held by a local government was no longer suitable.




A more immediate change will come in the reporting of results. Starting with its fourth-quarter numbers on January 19th Goldman will split its giant trading and principal investments division into two: client activities and its own lending and investments (private equity, distressed debt, leveraged loans and so forth, as well as its stake in ICBC, a giant Chinese bank). A filing this week showed how the third quarter of 2010 would have looked under the new structure (see chart). Some wonder if this is a first step towards a spin-off of the lending and investing arm.

Investors will welcome the extra disclosure. But Goldman will remain largely a black box, continuing to reveal little about the composition of its revenues in fixed income, currencies and commodities. Moreover, the line between trading for clients and on the firm's own behalf is fuzzy, as regulators trying to implement the Volcker rule, which curtails the latter, are finding.

There is plenty more in the 63-page report for cynics to scoff at: a "matrix" of client responsibilities; flabby talk of "encourag[ing] ownership and accountability for client service"; and the creation of several committees that threaten to bog the firm down in bureaucracy and foster the dangerous impression that groups, not individuals, bear responsibility for its conduct.

One thing that will not change, for now, is the top brass. Gary Cohn, the firm's president, will take on an extra role as head of the business-standards committee. Mr Blankfein will remain chief executive and chairman, jobs he has held since 2006. Though a target of public ire, he continues to enjoy strong support from clients, investors and the board. The level of backing among the 470 partners is harder to gauge. A few are said to see benefits in changing the leader. But there is no reason to doubt that the sharp, good-humoured Mr Blankfein remains popular with colleagues. In any case, "he wouldn't want to go at a time when it might be construed as being down to external pressure," says a person who knows him. One possible successor is Michael Evans, co-leader of the group that wrote the report.

Goldman says the recommendations will take up to 18 months to implement. Its ways may not be much different at the end of that period. Clients will get less double-dealing, investors a bit more information. The mighty firm need not care much about what the wider public thinks: after all, it does not serve moms and pops. The former partner thinks that Goldman will be able to do "80-90% of what it did before", and that its smart young things will make up much of the difference by sniffing out new opportunities. Call it self-improvement, Goldman style.

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Buttonwood

# Material concerns

Jan 13th 2011 | from PRINT EDITION

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**Commodity prices are surging at a very early stage of the cycle**


SUBPRIME mortgages may have dominated the headlines in 2008 but high commodity prices played a significant part in the economic turmoil of that year. So it is striking to note that *The Economist*'s all-items commodity index is now even higher than it was back then.

Admittedly, our index excludes oil, which is more than $50 below its 2008 peak. Nevertheless, at around $90 a barrel, oil is high enough to prompt petrol prices of more than $3 a gallon in America and record pump prices in Britain, where tax plays a much larger role.

The strength of raw-materials prices raises three vital questions. Given that the global recovery is at a very early stage, do high prices indicate that the world faces significant supply constraints, which will be a problem for years to come? Will such constraints lead to prolonged inflationary pressures and cause central banks to tighten monetary policy? Or are high prices simply a bubble, the result of speculative activity in the futures markets?

On the speculative front, 2011 began with record numbers of long futures positions for commodities on American exchanges: some 1.85m contracts, according to Ole Hansen of Saxo Bank. (That seems to have caused a bit of profit-taking in the first few days of the new year.) But it is still hard to pin all the blame for high prices on investors. Studies have shown that commodities that are not traded on exchanges have tended to rise as fast, and be as volatile, as those that are.

In any case, it seems likely that investors and commodity consumers are motivated by the same factors. Prices rebounded in the second half of 2010 after clear hints from the Federal Reserve that it would pursue a second round of quantitative easing. That might have caused speculators to pile into the market; it might equally have prompted companies in America and elsewhere to stop worrying about an economic double dip and to start rebuilding their inventories.

Over the long run, investing in commodities has not been a great bet. Companies use the term "commodity business" to describe humdrum, low-margin activities. In real terms *The Economist*'s commodity-price index has gone backwards since 1862, falling by around half since then. People have become more efficient at growing, finding or refining raw materials. As Dylan Grice, a strategist at Societe Generale, remarks: "When you buy commodities, you're selling human ingenuity."

One would expect commodities to be anchored by the cost of production. A market price well above that level will cause new supply to be brought on stream; too low a price will cause mines to be mothballed or arable land to be switched to other crops. In turn, the cost of production is cyclical since it requires a good deal of other commodities (such as oil) in the process. Higher grain costs, for example, feed through into cattle prices.

Clearly, at the top of the economic cycle, consumers will be so desperate to get their hands on raw materials that they will pay well over the cost of production. So the current surge in commodity prices, at a time of spare economic capacity in the rich world, suggests one of two things is going on. Either the needs of the developing world are causing demand growth to outstrip supply for an extended period, or new sources of supply can be found only at higher cost. Both explanations add weight to the idea of a "commodity supercycle", a long-term surge in prices that might last for 15-20 years.

In the short term this is bad news for the developed world which, in aggregate, is a commodity consumer, not producer. Higher prices may cause a surge in headline inflation but their main effect will be to act as a tax on consumers. For many parts of Europe, this tax is being levied at a time when the spending power of consumers is already being squeezed by the efforts to eliminate the fiscal deficit. Unfortunately for the Europeans, their own demand may be inconsequential in setting the global price, which is more dependent on America and China.

The inflationary impact is clearer in the developing world, where raw materials are a bigger proportion of the shopping basket: Indian food prices, for example, have risen by 18% over the past 12 months. The only cause for comfort so far is that rice, the most important foodstuff for Asian consumers, has not shown the same strength as other food prices. Nevertheless, Asia is starting to tighten policy; China pushed up rates last month.

If the Chinese economy slowed sharply, then commodity prices would slump. But that is not an outcome that the developed world should hope for.

Economist.com/blogs/buttonwood

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South Korea's jumbo pension fund

# Wrinkled, rich and roaming

Jan 13th 2011 | *SEOUL* | from PRINT EDITION

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**The world's fourth-largest pension fund becomes more assertive**

JUN KWANG-WOO, the boss of South Korea's National Pension Service (NPS), has a big job on his hands. With an average life expectancy of 80 years, and a birth rate of just 1.15 children per woman-one of the lowest in the world-South Korea is a demographic time-bomb. But the task of ensuring that the country's ever more numerous pensioners get their monthly payments is complicated by the fact that NPS is what Mr Jun calls "a whale in a pond".

With assets of 314 trillion won ($280 billion), NPS is by far the largest investor in the country's domestic fixed-income and equities markets. Listed South Korean firms have a combined market capitalisation of just over 1,000 trillion won. That limits NPS's investment opportunities at home. What's more, declining South Korean bond yields are making it harder for the fund to hit its target of a 7% return.

The answer is to put more money into foreign investments. Mr Jun, who spent 12 years at the World Bank, wants to raise the proportion of NPS's assets invested abroad from 9.8% in 2010 to 12.6% this year, with a rough target of 30% in ten years' time. As a result South Korean pensioners' money is increasingly finding its way into international equities and alternative assets. In October the fund joined Kohlberg Kravis Roberts, a private-equity firm, in buying Chevron's stake in Colonial Pipeline, an American fuel carrier. It has also made trophy property investments, such as the pound773m ($1.3 billion) purchase of the HSBC building at Canary Wharf in London and deals in Berlin, Paris and Sydney.

Investments like these, and last year's purchase of a 12% stake in Gatwick, London's second-biggest airport, will inevitably change NPS's profile. It remains a little-known quantity abroad. But this cannot last for ever: by 2015 NPS is expected to have almost 500 trillion won of assets, with 100 trillion invested abroad. The NPS already faces criticism at home for having a "skyscraper agenda", aimed more at boosting South Korean national pride than at investment returns. Mr Jun rejects any suggestion that the fund is being run for foreign-policy aims: "We are not a sovereign-wealth fund."

NPS is becoming more assertive at home, too. Many investors reckon that South Korea still shows too little respect for minority shareholders, particularly those who invest the more dynastic of the family-run *chaebol* conglomerates. Mr Jun refers to corporate governance as a prime factor in the "Korea discount", which makes South Korean shares the cheapest in Asia on price-earnings ratios and subdues the value of NPS's domestic investments. As the largest shareholder in many of the country's listed companies, the fund has plenty of clout and is increasingly ready to use it. The proportion of "no" votes exercised by the NPS at shareholder meetings has risen steadily from 1.2% in 2002 to 8.1% in 2010.

Addressing South Korea's demography will take more than decent returns. Plans to increase the retirement age beyond 60 will help. Dramatically increasing immigration, or encouraging married women to return to the workforce, would make a big difference, too. In the meantime NPS needs to keep flexing its investment muscles.

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Investment banking in China

# Hope over experience

Jan 13th 2011 | *HONG KONG* | from PRINT EDITION

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**Foreign investment banks are allowed a toehold in the Chinese market**

STYMIED by a series of rejections for its own offshore acquisition efforts and stung by growing complaints over how it treats foreign firms, Chinese officials have spent recent months proclaiming that, despite a few misunderstandings, their country is open for business. On January 7th JPMorgan and Morgan Stanley made announcements that seem to back these claims: after years of petitioning, the Chinese government had at last granted them permission to enter the country's domestic securities market.


In theory, and perhaps only theory, the approvals are highly significant. They are the first for an America bank since 2003 and will result in the two global giants joining a small group of foreign banks allowed to underwrite in China's domestic markets. Others are desperate for access. Last year, according to Dealogic, a data firm, China produced $5.6 billion in investment-banking revenue (see chart), more than twice as much as Asia's second-largest market, Japan. More than 700 companies issued securities worth $186 billion in all. Thousands of companies await approval for public offerings and the bond market is growing.

Some of these deals can be done by the international banks in Hong Kong, Singapore or America, but China itself provides the best prospect. It has large amounts of yuan savings that are currently stuck in low-yielding deposits or bubbly property. Private Chinese companies do not only want capital; they also want to use public offerings to restructure their operations in a way that can provide international legitimacy as well as a currency for long-term compensation that could instil a little badly needed loyalty.

Western firms are well positioned to provide this sort of service. Morgan Stanley's chief executive, James Gorman, reflecting investment banks' general line, said in a press release that his firm's approval "builds on Morgan Stanley's consistent track record of success in China". That statement captures the bullish spirit foreign executives like to exude when discussing China. Though not wholly unjustified, it glides over a history filled with many disappointments. The awkward reality is that the main flaw in the bank's last foray into China is present this time too.

In 1995 Morgan Stanley got a jump on other firms when it arranged a joint venture with China Construction Bank that led to the creation of CICC, one of China's leading investment banks. All told, Morgan Stanley invested $300m and sold out in 2010 for $1 billion-a good return. But on the way it got squeezed out of any managerial role and far larger potential revenues. UBS and Goldman have not suffered similar fates, but, while present in the domestic market, have been fairly irrelevant.

The new approval for JPMorgan and Morgan Stanley allows them into the domestic market only through one-third stakes in joint ventures to be carved out of two of China's smaller securities firms. And not only will they be mere bit players in bit players: the government has imposed operating limits. For the next five years the joint ventures will be able to underwrite but not trade securities.

Neither firm has spelled out how much managerial control it will have in the new joint-venture operations. JPMorgan says only that a handful of employees will be seconded. Morgan Stanley is vaguer still. It is the type of deal both banks would be likely to sneer at elsewhere. But China's perceived potential is such that they will take what they can get-and hope that this time will be different.

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German banks

# A piece of history

Jan 13th 2011 | from PRINT EDITION

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**A venerable German bank is on the block. Again**

A VETERAN of the second world war, Hanns Christian Schroeder-Hohenwarth still has an office at BHF-Bank, once one of Germany's pre-eminent banks, which he chaired until 1992. But will he keep it when the bank is sold to its next owner? BHF has had three of them since 1999, and continues to be touted around like an unwanted child.

Under him in its heyday BHF vied with Deutsche Bank, now Germany's biggest, as an innovator in corporate finance, trading and financial engineering, as well as having a better private-client list. It was the result of a successful merger in 1970 of Frankfurter Bank (founded in 1854) and Berliner Handels-Gesellschaft (founded in 1856). But a genteel decline set in soon after the partnership went public in 1995. Although it was never integrated with any of its owners, and still has a great name, it is increasingly clear, with the rising cost of technology, regulation and compliance, that it does not have critical mass.

BHF-Bank's latest proprietor happens to be Deutsche Bank, which picked it up in late 2009 while rescuing its then owner, Sal. Oppenheim, another private bank. Oppenheim had bought BHF in 2004 from ING, a Dutch banking group, which in turn had acquired it from Allianz Insurance and a handful of other big German shareholders in 1999.

There may yet be a happy ending. Last month Deutsche entered exclusive negotiations with LGT Group of Liechtenstein. LGT, owned by the principality's royal family, specialises in wealth and asset management and is expanding in German-speaking Europe. In 2009 it snapped up the Swiss subsidiary of Dresdner Bank, one ailing German bank which had merged with another, Commerzbank. LGT has been active in Germany since 2003.

BHF's good name, its German client list and its euro43 billion ($56 billion) of assets under management could be exactly what the Liechtenstein group needs.

LGT's own name shot to prominence in 2008 when computer disks stolen by an employee, bearing details of some of its clients' accounts, many of them set up to evade tax, were sold to various governments. One victim was Klaus Zumwinkel, chairman of Deutsche Post, a logistics group, who immediately resigned. On December 16th LGT paid close to euro50m to settle a prosecution in Germany for abetting tax fraud. Although the settlement had nothing to do with the intended purchase of BHF, it draws a line under the affair-at least in Germany.

Apart from the price (BHF's book value is reckoned to be around euro600m) other factors could still scupper a deal. BHF is a small universal bank with corporate-lending, corporate-finance and proprietary-trading operations. Although LGT might want some of this capacity to serve its clients, it will probably not want to maintain the present scale.

BHF's managers want the bank to be sold intact. A carve-up of BHF would be a sorry fate for one of the few German banks which did not mess up during the credit crisis and still has an *esprit de corps*. It would also be a sad comment on how hard it is for smaller firms to prosper against the too-big-to-fail giants.

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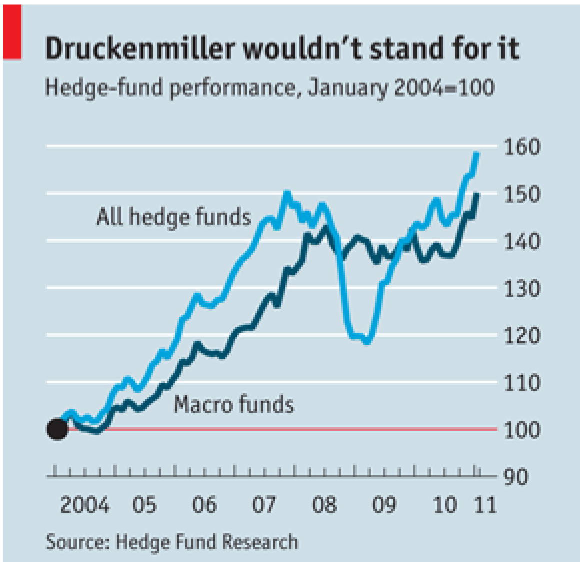
Hedge funds

# Macrobatics

Jan 13th 2011 | *NEW YORK* | from PRINT EDITION

**To make money, macro hedge funds must be nimble**

A WILDERNESS of mirrors is how Hugh Hendry of Eclectica Asset Management, a macro hedge fund, has described the uncertain investment landscape, quoting a poem by T.S. Eliot. For macro hedge funds, which bet on global economic trends by trading instruments of almost any description, the terrain is especially perplexing. They are confronted by sovereign defaults in Europe, China's boom, the risk of a double dip and state intervention in markets, not least quantitative easing in America.




Managers grumble that there was a lack of clear trends to follow in 2010. Those that did emerge often quickly went into reverse, leaving macro funds, which usually invest in longer-term themes, flummoxed. Average returns were modest-about 8% last year, less than the typical hedge fund (see chart). Some celebrated names lagged behind. Brevan Howard returned only about 1%. In August Stanley Druckenmiller, a protege of George Soros, king of the macro world, said he would close his fund, Duquesne Capital Management, because he was not pleased with his performance.

Some managers were able to stand out. Those that took long positions in equities and commodities did particularly well. Passport Capital, a $4.2 billion macro hedge fund based in San Francisco, rose 18% last year, partly because it piled more than half its assets into commodity-related equities, such as Riversdale, an Australian mining company. Bridgewater, a large macro fund, gained nearly 45%, aided by its bets on gold and American and European bonds. Autonomy Capital was up 26%, partly because it shorted the euro and European credit and went long on various Asian currencies. Owning commodity currencies, such as the Canadian dollar, also proved lucrative for some funds.

Managers have started 2011 with a few new-year resolutions. Many plan to stomach more risk. Last year also showed the importance of being quick at entering and exiting trades. Typically macro funds build their positions slowly. However, "In

last year's choppy market, trades had a shorter lifespan," says Tomas Jelf of Prologue Capital, a London-based macro fund. "You had to go in closer to the full size early on and then be willing to take it off quicker. You had to be tactically more aggressive."

Despite tepid performance in 2010 investors have remained enthusiastic about macro funds. They are liquid and diverse, since they trade in many asset classes, and received around $9.5 billion in investor allocations in the first 11 months of last year, according to BarclayHedge, a data firm. That made macro funds one of the most popular types of hedge fund. Investors are fans "because there's still a nervousness about the future", says Michael Novogratz, a principal of Fortress, an investment firm. "Investors see macro as a hedge to the world shifting," reckons Mr Novogratz, who oversees his firm's macro funds.

That enthusiasm means other kinds of hedge fund are busy buffing up their expertise in macro. Steven Drobny of Drobny Global Advisors, a research and strategy firm for macro funds, says he is seeing a surge in firms venturing into the area for the first time-or what he calls "macro-tourists".

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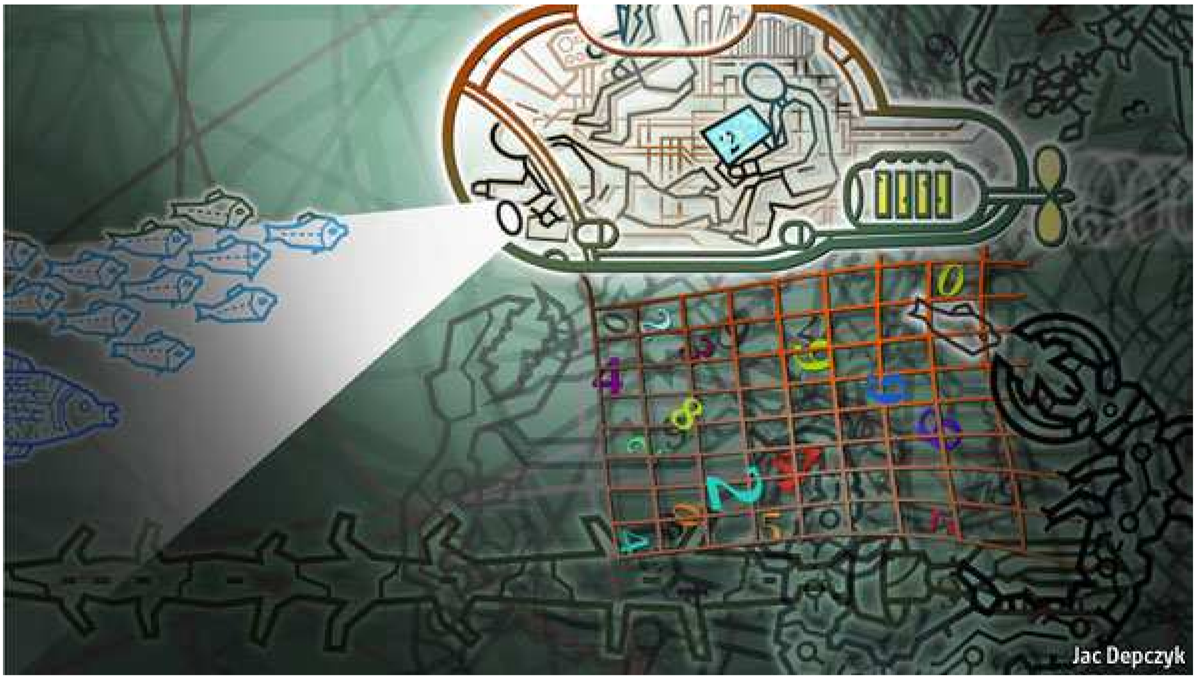
Economics focus

# The great unknown

Jan 13th 2011 | from PRINT EDITION

**Can policymakers fill the gaps in their knowledge about the financial system?**




IN THE depths of the Great Depression, Presidents Hoover and Roosevelt had to set economic policy on the basis of information that decision-makers today would consider pathetic. Along with manufacturing output, factory employment and department-store sales, they counted the number of freight wagons transported by rail. As a result America subsequently developed national accounts, which try to measure the economy better, using concepts such as gross domestic product.

The world has since invented a vast array of financial and economic statistics and the processing power to crunch them. Yet policymakers are today in a similar position with regard to the financial system. New "macroprudential" bodies have been tasked with maintaining financial stability, such as the European Systemic Risk Board (which has its inaugural meeting next week) and America's Financial Stability Oversight Council. But the crisis exposed vast gaps in knowledge.

From conduits and subprime-related securities to the regulatory-capital-enhancement swaps written by AIG, there was a bewildering list of financial exotica that played a significant role in the meltdown.

The International Monetary Fund (IMF) and the Financial Stability Board (FSB), a global club of regulators, have picked some priorities. Three things are at the top of the wish-list. First, system-wide measures of borrowing and "maturity mismatch", where banks use short-term funding to buy long-term assets. As in the past, these were the root causes of the financial crisis. The world's ten biggest banks more than doubled the size of their balance sheets between 2003 and 2007. As they made loans faster than they gathered customer deposits, banks plugged the gap by short-term borrowing, often from other financial firms. After the collapse of Lehman Brothers in September 2008 many banks faced severe difficulties rolling over this funding.

The second priority is data on the links between big banks and other bits of the financial system. It was not just the investment banking giants that had exposures around the world. Many European institutions were up to their necks in securities linked to the American housing market. This suggests that more information is needed on banks' exposures across borders and the concentration in underlying asset classes.

The final priority is data on the "shadow banking system" which comprises non-bank financial firms that often slip below regulators' radar. In the run-up to the crisis, regulated banks became too reliant on shadow banks for funding. Off-balance-sheet vehicles were used to create further layers of intermediation, making things even more opaque.

The IMF and FSB will report back in June this year. Some progress has been made. The Bank for International Settlements (BIS), a club of central banks, has used its data on international banking to develop a measure of maturity mismatch. But this is restricted to banks, and covers only their international activities and on-balance-sheet positions; and, as the euro-zone crisis has shown, the BIS data can also be difficult to interpret.

To get a better handle on global banks, the FSB has developed a common reporting template, which will identify exposures to different financial sectors and national asset markets. Persuading banks actually to fill it in may be harder: widespread consultation will be needed and there are confidentiality and legal issues to grapple with.

The shadow banking system poses a thorny problem too. The IMF is trying to measure the problems of sectors where data do not exist or are sparse: for instance, for hedge funds, money-market funds and over-the-counter derivatives. This will require twisting the arms of financial firms that currently do not report data. Until then, the most severe gaps may be in the most leveraged parts of the financial system.

Paul Tucker of the Bank of England worries about the threats to financial stability that are created from outside the regulated sector and wonders whether the "regulatory perimeter" should be widened to encompass such institutions. That would allow regulators to supervise these firms, but would also give policymakers better information.

**What you don't know will hurt you**

For all the effort expended on data gaps, the constant evolution and footloose nature of the financial system complicates matters hugely. As bank whizz-kids dream up new products, it will be hard for officials to keep up. Indeed, there is a good case that new financial techniques are created precisely because regulators cannot spot or understand them and therefore do not penalise them for being risky.

The insurance contracts that made AIG so entwined with the banking system were designed to help banks boost their capital ratios. The bundling of risky loans into complex securities was attractive for many firms precisely because they had low capital charges. Regulators, therefore, are not just in a race to keep pace with finance, they are in a constant battle to outwit it. The hope is that good market intelligence, for example discussions with clued-up investors, can help officials to become more savvy.

Yet imagine data nirvana: a colossal, constantly updating spreadsheet of the trading and lending exposures, cross-border activity, interconnectedness and funding risks of all regulated and unregulated institutions. Even if a few humans could get their heads around it-a collective nervous breakdown is more likely-they would still have to decide when to act.

In the run-up to the crisis policymakers and supervisors, like most other people, managed to rationalise bad things that were plain for all to see, such as inflated house prices and some banks' rock-bottom capital levels. As Claudio Borio of the BIS puts it, "The main reason why crises occur is not lack of statistics but the failure to interpret them correctly and to take remedial action."

Einstein and car batteries

# A spark of genius

Jan 13th 2011 | from PRINT EDITION

**Without the magic of relativity, a car's starter motor would not turn**


ALBERT EINSTEIN never learned to drive. He thought it too complicated and in any case he preferred walking. What he did not know-indeed, what no one knew until now-is that most cars would not work without the intervention of one of his most famous discoveries, the special theory of relativity.

Special relativity deals with physical extremes. It governs the behaviour of subatomic particles zipping around powerful accelerators at close to the speed of light and its equations foresaw the conversion of mass into energy in nuclear bombs. A paper in *Physical Review Letters*, however, reports a more prosaic application. According to the calculations of Pekka Pyykko of the University of Helsinki and his colleagues, the familiar lead-acid battery that sits under a car's bonnet and provides the oomph to get the engine turning owes its ability to do so to special relativity.

## Relative values

The lead-acid battery is one of the triumphs of 19th-century technology. It was invented in 1860 and is still going strong. Superficially, its mechanism is well understood. Indeed, it is the stuff of high-school chemistry books. But Dr Pyykko realised that there was a problem. In his view, when you dug deeply enough into the battery's physical chemistry, that chemistry did not explain how it worked.

A lead-acid battery is a collection of cells, each of which contains two electrodes immersed in a strong solution of sulphuric acid. One of the electrodes is composed of metallic lead, the other of porous lead dioxide. In the parlance of chemists, metallic lead is electropositive. This means that when it reacts with the acid, it tends to lose some of its electrons. Lead dioxide, on the other hand, is highly electronegative, preferring to absorb electrons in chemical reactions. If a conductive wire is run between the two, electrons released by the lead will run through it towards the lead dioxide, generating an electrical current as they do so. The bigger the difference in the electropositivity and electronegativity of the materials that make up a battery's electrodes, the bigger the voltage it can deliver. In the case of lead and lead dioxide, this potential difference is just over two volts per cell.

That much has been known since the lead-acid battery was invented. However, although the properties of these basic chemical reactions have been measured and understood to the nth degree, no one has been able to show from first principles exactly why lead and lead dioxide tend to be so electropositive and electronegative. This is a particular mystery because tin, which shares many of the features of lead, makes lousy batteries. Metallic tin is not electropositive enough compared with the electronegativity of its oxide to deliver a useful potential difference.

This is partly explained because the bigger an atom is, the more weakly its outer electrons are bound to it (and hence the further those electrons are from the nucleus). In all groups of chemically similar elements the heaviest are the most electropositive. However, this is not enough to account for the difference between lead and tin. To put it bluntly, classical chemical theory predicts that cars should not start in the morning.

Which is where Einstein comes in. For, according to Dr Pyykko's calculations, relativity explains why tin batteries do not work, but lead ones do.

His chain of reasoning goes like this. Lead, being heavier than tin, has more protons in its nucleus (82, against tin's 50). That means its nucleus has a stronger positive charge and that, in turn, means the electrons orbiting the nucleus are more attracted to it and travel faster, at roughly 60% of the speed of light, compared with 35% for the electrons orbiting a tin atom. As the one Einsteinian equation everybody can quote, $E=mc^2$, predicts, the kinetic energy of this extra velocity (ie, a higher E) makes lead's electrons more massive than tin's (increasing m)-and heavy electrons tend to fall in and circle the nucleus in more tightly bound orbitals.

That has the effect of making metallic lead less electropositive (ie, more electronegative) than classical theory indicates it should be-which would tend to make the battery worse. But this tendency is more than counterbalanced by an increase in the electronegativity of lead dioxide. In this compound, the tightly bound orbitals act like wells into which free electrons can fall, allowing the material to capture them more easily. That makes lead dioxide much more electronegative than classical theory would predict.

And so it turned out. Dr Pyykko and his colleagues made two versions of a computer model of how lead-acid batteries work. One incorporated their newly hypothesised relativistic effects while the other did not. The relativistic simulations predicted the voltages measured in real lead-acid batteries with great precision. When relativity was excluded, roughly 80% of that voltage disappeared.

That is an extraordinary finding, and it prompts the question of whether previously unsuspected battery materials might be lurking at the heavier end of the periodic table. Ironically, today's most fashionable battery material, lithium, is the third-lightest element in that table-and therefore one for which no such relativistic effects can be expected. And lead is about as heavy as it gets before elements become routinely radioactive and thus inappropriate for all but specialised applications. Still, the search for better batteries is an endless one, and Dr Pyykko's discovery might prompt some new thinking about what is possible in this and other areas of heavy-element chemistry.

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Psychology

# The power of posture

Jan 13th 2011 | from PRINT EDITION

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**How you hold yourself affects how you view yourself**

And get your bleeding hair cut, too!!!

"STAND up straight!" "Chest out!" "Shoulders back!" These are the perennial cries of sergeant majors and fussy parents throughout the ages. Posture certainly matters. Big is dominant and in species after species, humans included, postures that enhance the posturer's apparent size cause others to treat him as if he were more powerful.

The stand-up-straight brigade, however, often make a further claim: that posture affects the way the posturer treats himself, as well as how others treat him. To test the truth of this, Li Huang and Adam Galinsky, at Northwestern University in Illinois, have compared posture's effects on self-esteem with those of a more conventional ego-booster, management responsibility. In a paper just published in *Psychological Science* they conclude, surprisingly, that posture may matter more.

The two researchers' experimental animals-77 undergraduate students-first filled out questionnaires, ostensibly to assess their leadership capacity. Half were then given feedback forms which indicated that, on the basis of the questionnaires, they were to be assigned to be managers in a forthcoming experiment. The other half were told they would be subordinates. While the participants waited for this feedback, they were asked to help with a marketing test on ergonomic chairs. This required them to sit in a computer chair in a specific posture for between three and five minutes. Half the participants sat in constricted postures, with their hands under their thighs, legs together or shoulders hunched. The other half sat in expansive postures with their legs spread wide or their arms reaching outward.

In fact, neither of these tests was what it seemed. The questionnaires were irrelevant. Volunteers were assigned to be managers or subordinates at random. The test of posture had nothing to do with ergonomics. And, crucially, each version of the posture test included equal numbers of those who would become "managers" and "subordinates".

Once the posture test was over the participants received their new statuses and the researchers measured their implicit sense of power by asking them to engage in a word-completion task. Participants were instructed to complete a number of fragments (for example, "l_ad") with the first word that came to mind. Seven of the fragments could be interpreted as words related to power ("power", "direct", "lead", "authority", "control", "command" and "rich"). For each of these that was filled out as a power word ("lead", say, instead of "load") the participant was secretly given a score of one point.

Although previous studies suggested a mere title is enough to produce a detectable increase in an individual's sense of power, Dr Huang and Dr Galinsky found no difference in the word-completion scores of those told they would be managers and those told they would be subordinates. The posture experiment, however, did make a difference. Those who had sat in an expansive pose, regardless of whether they thought of themselves as managers or subordinates, scored an average of 3.44. Those who had sat in constricted postures scored an average of 2.78.

Having established the principle, Dr Huang and Dr Galinsky went on to test the effect of posture on other power-related decisions: whether to speak first in a debate, whether to leave the site of a plane crash to find help and whether to join a

movement to free a prisoner who was wrongfully locked up. In all three cases those who had sat in expansive postures chose the active option (to speak first, to search for help, to fight for justice) more often than those who had sat crouched.

The upshot, then, is that father (or the sergeant major) was right. Those who walk around with their heads held high not only get the respect of others, they seem also to respect themselves.

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Greenhouse-gas monitoring

# Not hot air

Jan 13th 2011 | from PRINT EDITION

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**A new, private initiative should help show which gases come from where**

IN 1955 a young man called David Keeling started to measure the level of carbon dioxide in the Californian air. It seemed of little practical value, but he liked designing and building the equipment-and driving back and forth along the Pacific Coast Highway to his sampling site at Big Sur was fun. Scientists with a new-found interest in the world's carbon-dioxide levels soon learned of his work and gave him a job setting up monitoring stations in Hawaii and Antarctica for the Scripps Institute of Oceanography, in La Jolla. He continued to work there for almost 50 years, devoting his life to the monitoring effort. His son, Ralph, runs the carbon-dioxide programme at Scripps to this day.

In those 50 years measuring carbon-dioxide levels has gone from being a fun problem for a postdoc to a crucial issue for the planet. But the amount of effort put into it remains surprisingly small. America's National Oceanic and Atmospheric Administration (NOAA) runs the biggest network of monitoring sites. A dozen other countries run a few here and there as well, with an expanded European effort getting under way. However, the scientists involved have been pointing out for years that it would take a very small investment, in a scientific world of satellites and supercomputers, to make such networks a lot more capable. On January 12th, such an investment was at last revealed-but not by any of the governments to which the pleas had been addressed.

A private company in Maryland, known until recently as AWS Convergence Technologies but now called Earth Networks, has announced that over the next five years it will spend $25m installing 100 state-of-the-art carbon-dioxide and methane monitors around the world. Fifty will be sited in America. According to Pieter Tans, the doyen of the field at NOAA, the country currently has 17 or 18, so that will improve things by a factor of four. In some less-well-covered places things will improve even more.

This is not pure philanthropy. Earth Networks, which already runs a large system of weather stations and lightning monitors, is looking to expand, and it believes that there should be a market for greenhouse-gas data. American states trying to show that they are doing something about their emissions might be prepared to pay for "inverse modelling" work (which uses measured gas levels and the weather patterns of recent hours and days to work out where the gas is coming from) if it were detailed enough to give results for areas as small as single states. So might countries in Europe, where the company plans to put 25 monitors. The new monitoring stations should allow such granularity.

Although carbon dioxide is the more important greenhouse gas, methane measurements will be a more practical early application to test the market for this sort of data. Land masses, and their inhabitants, emit methane without then sucking any of it back up, which makes inverse modelling easier than for carbon dioxide (which has sinks, in the form of photosynthesising plants, as well as sources).

Dr Tans probably speaks for many of the scientists involved when he says he is cautiously optimistic about the news. The caution stems in part from concerns about how the company's policy on access to its data may change as its business model becomes clearer. To begin with, those data will be free to academic researchers. But that could change.

Another, more selfish worry is that governments which buy Earth Networks' products will close down their existing research programmes. Besides the resulting unemployment, some researchers fear this would waste an opportunity to use the new data to reveal the true workings of the sources and sinks of gases.

And new data there will be-possibly a lot of them-if the business shows signs of profit. Earth Networks will presumably expand, or competitors will move in, or both. Bob Marshall, the company's boss, says he could imagine 1,000 monitoring stations around the world by 2021. Couple such capability with new satellite measurements (America's *Orbiting Carbon Observatory 2* is due to launch in a few years) and better measurements of the mass of plant life in forests and other ecosystems, and the planet's greenhouse-gas credits and debits will surely be understood far better.

Such expansion has risks in itself. Long-term monitoring requires expertise that comes only with years on the job, so the quality of data from new entrants is always a bit suspect. Here, though, Earth Networks has been canny. As well as working with NOAA, it has a partnership with Scripps to ensure its precision and quality control. There's no better pedigree.

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A new planet

# Vulcan?

Jan 13th 2011 | from PRINT EDITION

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**Time to start giving extrasolar planets proper names**


ASTRONOMERS are a curious bunch. Some like to name things. Others prefer numbers and letters. Those who study the solar system fall into the former camp. Every planet, asteroid, moon, mountain and crater has its name. Mankind's mythologies have been ransacked so thoroughly that the need to identify each orbiting rock has resulted in such curiosities as Zappafrank, Lennon, McCartney and even Bagehot. Those who study other planetary systems have been more restrained. Planets orbiting stars beyond the sun are labelled merely with the name of the star and a suffix letter. Even if planets and moons were found round Alpha Centauri, as envisaged by the writers of "Avatar", they would not get glorious monikers like Polyphemus and Pandora. They would just be letters-and lower-case ones, to boot.

That is sad. Though the nominative diarrhoea of the solar system may have gone a little far, a well-chosen name is both picturesque and memorable. Perhaps, therefore, it is time to change the convention and give such a name to an extrasolar planet. And an ideal candidate has just turned up-one that matches one of astronomy's own myths: the legendary, non-existent planet Vulcan.

Kepler-10b, to give this planet's current name, is the latest discovery by *Kepler*, an American spacecraft. The new object, whose existence was announced on January 10th at a meeting of the American Astronomical Society, in Seattle, is causing excitement because it is the smallest extrasolar planet yet discovered. Its diameter is a mere 1.4 times that of Earth, though it weighs 4.6 terrestrial masses. What makes it Vulcanlike, though, is that it circles its star, Kepler-10, once every 20 hours, in an orbit a twentieth the size of Mercury's.

Astronomers of the 19th century spent decades searching for a planet within Mercury's orbit, and confidently named it after the fireloving Roman god of smiths even before they found it. Their reason for thinking Vulcan existed was that Mercury's orbit behaved as if a more inward planet was tugging on it.

That discrepancy was eventually explained by Einstein as a relativistic effect of the sun's gravity, and the search for Vulcan petered out. Kepler-10b, however, has some curious parallels with the solar system's non-existent innermost planet. The first is its location so close to its parent star. Second, despite its size, it is quite heavy. That would have been a useful characteristic in the original Vulcan, had it been real. Third, its high mass probably means it is made of iron, an appropriate material for a planet named after a divine smith. And fourth, it was found in exactly the way the hunt for Vulcan proceeded-by noting the slight dip in light from its parent star caused when it passed in front of that star.

Numbers have their place in science, of course. Indeed, the subject is founded on them. But the driving force behind a lot of scientific activity is far more romantic than many non-scientists appreciate-and the search for other Earths, with their tantalising promise of other life forms, is about as romantic as it gets.

Keep numbers, then, in their proper place-for counting things. For describing them, names are better. And where better to start the process of naming the unfolding atlas of new planets than with the magical smith who was Venus's husband and cuckolded by Mars?

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Open-source software

# Untangling code

Jan 13th 2011 | from PRINT EDITION

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**Much conventional wisdom about programs written by volunteers is wrong**

**The Comingled Code: Open Source and Economic Development.** By Josh Lerner and Mark Schankerman. *MIT Press; 264 pages; $35 and pound25.95.* Buy from Amazon.com, Amazon.co.uk


IN INFORMATION technology there seems to be a revolution every other week. At least that is the impression one gets when following media coverage of the sector. Yet sometimes the hype is justified, in particular in the case of open- source software, free programs developed by loosely knit groups of developers. Within just 15 years they have completely changed the landscape of the software industry, turning it from a mostly capitalist economy into a mixed one.

The shift should be of interest-and not just to techies. Software is important stuff; it keeps the world moving. No car, no television set, not even a modern toaster works without some code. Take corporate computer programs away, and the economy comes to a grinding halt. In some cases software has changed how humans behave; spreadsheet programs, for instance, have redefined more than one job.

At least theoretically, open source could also resolve the main dilemma that bedevils innovation policy. On the one hand, most inventors need incentives to keep inventing. On the other, the social value of an invention is maximised if anyone-not just those willing to pay for it-can use it. Open source seems to satisfy both conditions. Developers contribute voluntarily, and share code freely.

This makes it all the more surprising that the writing about open source is rather patchy. To be sure, there are plenty of books about it. But many are banging a drum on one side or the other of the heated debate within the software industry. Others lionise open-source stars, such as Linus Torvalds, who wrote the first version of Linux, a popular operating system. None offers a robust survey and analysis of the phenomenon.

With "The Comingled Code", Josh Lerner and Mark Schankerman, professors at the Harvard Business School and the London School of Economics respectively, are aiming to fill this gap. They have done a good job-although its academic tone makes it unlikely that the book will fly off the shelves, even in areas with a lot of hackers (who are sure to take offence at the fact that the authors took money for research from Microsoft, long the arch- enemy of the open-source movement- although they assure readers that the funds came with no strings attached).

The authors offer a brief history of their subject. Open source is actually nothing new. Sharing of source code was widespread in the early days of computing, when software was not perceived as having market value and most developers were academics. But companies soon discovered that selling proprietary software can be a very profitable business. To recreate a software commons, a group of politically motivated programmers came up with a special usage licence in the early 1980s to ring-fence "free software", as it was then called.

This approach, known as "copyleft", as opposed to copyright, languished in obscurity until the internet made it easier for far-flung groups of developers to collaborate-which led to an explosion of open-source activity. Today SourceForge, an online home for such projects, hosts thousands of them. More importantly, open-source software has become an integral part of information technology. In some markets, for instance, Linux is more successful than Windows. And Android, the fastest growing operating system for smart-phones, is largely open source.

**Greatest contributions**

Although the book is a good primer on all this, its main contribution consists of two surveys-one of users of software, the other of developers-that are unprecedented in both scale and scope. More than 2,300 companies and nearly 2,000 programmers, spread across 15 countries, both rich and poor, filled out questionnaires. And Messrs Lerner and Schankerman asked a lot of questions, from how much open-source software a firm has implemented to whether governments should mandate the use of such programs.

The findings contradict much conventional wisdom. Open-source developers, for instance, are widely believed mostly to be volunteers who just love writing code. While this may have been true in the early days of computing, the motivation and background of programmers is now much more mixed. Many work for firms that develop both open-source and proprietary programs and combine them in all kinds of business models. Nearly 40% of companies surveyed fall into this category.

The survey also indicates that the two software worlds are much more "comingled" than their respective champions would have it. More than a quarter of companies happily mix and match both sorts, in particular in poorer countries. Messrs Lerner and Schankerman view the environment of software developers and users as a complex ecosystem akin to a rainforest. It would be wrong, they say, to see the two types of software as substitutes for another or as interchangeable.

Yet the finding that open-source advocates will like least is that free programs are not always cheaper. To be sure, the upfront cost of proprietary software is higher (although open-source programs are not always free). But companies that use such programs spend more on such things as learning to use them and making them work with other software. Whether one or the other type of software is a better deal depends on a customer's circumstances. Does a firm have cash to spend? Do its employees have the necessary skills? There "is no such thing as 'the cost of software'," the authors argue.

Given the complex picture, they dismiss the argument that open source can solve the conundrum of innovation policy as being "too optimistic". They do not believe that governments should intervene in favour of open-source software, as many have done through subsidies or public procurement. Instead governments should make sure that the two forms of software compete on a level playing field and can comingle efficiently. One way of doing this would be to promote open standards to ensure that proprietary incumbents do not abuse a dominant position.

All this sounds reasonable, but these recommendations also point to the book's weakness. Having dissected open source in detail and told governments at length what not to do, the authors' prescriptions remain rather vague. "There is no right answer," they say in the final chapter, amusingly called "The Takeaways".

It would also have been helpful to examine the implications of the findings for technology sharing in other industries. Open source has moved way beyond software-into biology, all forms of digital content (Wikipedia, now ten years old, is the most prominent example) and even hardware. "The Comingled Code" is full of insights, but the literature about this important development in recent economic history is still far from complete.

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The Duchess of Devonshire

# Discreet charm of the aristocracy

Jan 13th 2011 | from PRINT EDITION

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**The youngest of the Mitford sisters tells her own story**

**Wait for Me! Memoirs.** By Deborah Mitford. *Farrar, Straus & Giroux; 370 pages; $28. Published in Britain by John Murray as "Wait for Me! Memoirs of the Youngest Mitford Sister". By Deborah Devonshire.pound20.* Buy from Amazon.com, Amazon.co.uk

Debo's delights

EVEN the most fervent followers of the saga of six remarkably diverse sisters may be tempted to think "enough already!" when faced with yet another dose of Mitfordiana. But they should have no fear. Deborah, Duchess of Devonshire, "Debo" to her disciples, the youngest of the sextet and its only survivor, has pulled off the feat of writing an autobiography that contains a fair bit of old hat, yet provides new nuggets and vignettes on almost every page. She is an acute anecdotalist, sometimes with a ringside seat as history was being made. And her tale is both funny and sad.

Several of the sisters, in particular Nancy and Jessica ("Decca"), have told their own version of the Mitfords' upbringing, a rum mixture of the conventional and the eccentric, the rustic and the cosmopolitan, the messy and the ritzy, with their father famously spoofed as "Uncle Matthew" in Nancy's early comic novels. The duchess adds jovially and sometimes poignantly to the overall Mitford canon.

Amid the sorority's jocularity and the often outlandish extremes, with Decca a communist, Unity a suicidally crazed worshipper of Hitler, Nancy a chronicler of upper-class japes and Diana married to the British fascist leader, Sir Oswald Mosley, Deborah charts a steady course through the swirl of family emotions, seemingly a rock of sanity as the river flows by.

A good two-thirds of her memoir, however, tells of her own remarkable career once she is out of her sisters' shadow. When, aged 21 in 1941, she married Andrew Cavendish, he was not expected to become the 11th Duke of Devonshire, but three years later his older brother (who was married to a sister of the future President John Kennedy) was killed in the war. In 1950 Debo became the chatelaine of seven substantial houses. The grandest was Chatsworth. The finest, arguably, was Hardwick, soon to be given to the National Trust. The most romantic, perhaps, was Lismore, in southern Ireland; and the weirdest was Bolton Abbey on the Yorkshire dales. The duchess's description of putting this gallery of properties on an economic footing, underpinned by a modestly stated but distinct sense of public spirit, is as riveting as her celebrity gossip.

She is catholic in her taste in people. Lucian Freud, Patrick Leigh Fermor, Harold Macmillan (the duke's uncle by marriage), the Duke and Duchess of Windsor, the Kennedys, Jomo Kenyatta and, *en passant,* Adolf Hitler, all spice the pages. Claiming with some insouciance not to be "political" in a formal sense, her description of Kennedy, a close friend, with whom she stayed at the White House during the Cuban missile crisis, is worth recording:

**He was such good company, so funny and straightforward-a mixture of schoolboy and statesman. He was the only politician I have ever known who could laugh at himself and did. He never spoke of the posts he had held-as in my experience English politicians always do...so that your attention immediately wanders. Jack could say "I don't know" (which our politicians never do).**

Though entertaining and witty, she tends to hold back when you want to know what she really thought, for instance, of Oswald Mosley ("Sir O", as she amiably calls him). Loyalty and discretion prevent her from spilling any of the many outrageous beans she could have scattered on her ducal floor. She tends to censor her deepest feelings.

And it was not all a big laugh. Her husband, a famous charmer, was also, for much of their marriage, an alcoholic. She describes both his condition and his eventual cure with moving candour, perhaps because he had already largely done so in a memoir of his own. Three of her six children died at birth. Her sole brother, her brother-in-law, and her four closest friends were killed in the war. Her sister Unity's lingering death, which she valiantly helped to soften, was grisly. Behind the humour and the jollity you sense a self-controlling inner steel. In those days, in that position, with those relations, she must have needed it.

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Amateur racing

# Kicking his heels

Jan 13th 2011 | from PRINT EDITION

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**The midlife crisis of Dominic Prince**

**Jumbo to Jockey: Fasting to the Finishing Post.** By Dominic Prince. *Fourth Estate; 213 pages; pound10.99.* Buy from Amazon.co.uk

RIDING a horse at a gallop offers instant gratification. Anyone who has done it knows that the knife-edge between daring, danger and disaster can be blood-rushingly addictive.

This longing has never left Dominic Prince, a British journalist, film-maker and bon viveur, who spent his childhood hurtling around on ponies. In mid-life he becomes tormented by "the nagging reminder that I have never done the one thing I have always wanted to do-competed on a horse in a race, on a racecourse."

The good news is that he can tell a forelock from a fetlock. The bad? He has not ridden for 20 years. And at 47 and weighing in at 238 pounds (108.2kg), Mr Prince is a little overripe to be a jockey.

With a natural storyteller's lightness of touch and gently self-deprecating humour, "Jumbo to Jockey" displays considerable spirit and draws the reader deep in to the world of racing, a place where horses bewitch, and owners, trainers, jockeys and stable lads are drawn to "the glory that beckoned, the danger, the defiance of death."

But before Mr Prince gets anywhere near glory he must lose 70 pounds, find a trainer, a racehorse and a race. The Berkshire stables of Charles "Edgy" Egerton beckon and the author is put under the charge of Trigger, a tough, taciturn Irishman renowned for his legendary explosions. After proving his "stickability" on a polo pony, the author is soon ecstatically galloping half a mile in 45 seconds on Cote Soleil, his first thoroughbred ride.

All the while he is on a severe diet. Fried eggs are replaced with frugal grains, wine with water, stupendous suppers with salads. As Mr Prince's bulk dwindles he looks for amateur races, trying Wincanton and Chepstow, then finally finds one at Towcester, a course that is, in the words of the champion jockey, A.P. McCoy, "a bit of a bastard".

Suddenly the training is up, his weight is down, and race day is upon him. In the best bit of the book Mr Prince skilfully depicts the atmosphere of the track: bright silks, dour faces, gleaming boots and saddles, the tangle of bridles and bits, the palpable tension.

Then it's up onto his mount, Dancing Marabout, a fidgety three-year-old chestnut gelding, and his nerves fall away. The ten horses and riders line up, the flag drops and they're off. The horse leaps forward, hooves drumming the four-beat rhythm of the gallop, faster, faster and faster still, his rider joyous, until with a rush it is all over and they cross the finish

line in fifth place. "I had done it," writes Mr Prince, sheer joy leaping from the page. "I had realised a childhood dream. I had ridden my horse and come out of it alive."

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Short stories

# Tender is the knight

Jan 13th 2011 | from PRINT EDITION

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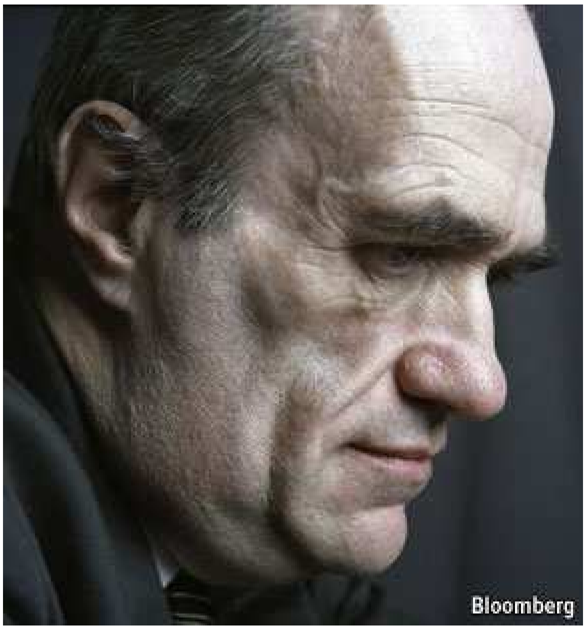
**An Irish writer at the top of his game**

**The Empty Family: Stories.** By Colm Toibin. *Scribner; 288 pages; $24. Viking; pound17.99.* Buy from Amazon.com, Amazon.co.uk



Colm confidence

WINNER of one of last year's Costa prizes for his novel, "Brooklyn", twice shortlisted for the Man Booker prize, Colm Toibin is a writer readers look forward to.

His second collection of short stories, "The Empty Family", which was published late last year in Britain and comes out this month in America, is rich with tender surprises. His characters, cast adrift by their history, are full of unspoken, even unconscious, longing. Malik and Abdul are Pakistanis who, having gained a toehold on the European mainland, sell phone cards on Barcelona street corners and sleep eight to a room in the stuffy Spanish summer. Cut off from the parents of their past and the children who should be their future, they seek a hesitant solace together walking side by side by the sea in the dark.

Having fled Dublin for California, Frances sets herself to working at an unforgiving pace as a set dresser so as not to have to acknowledge that the man she loved most in her life has died, having first married another woman, and that she herself now lives alone. In the course of an unexpected return visit, working on a film, she meets a woman who leads her to re-examine how much she has lost. A group of old schoolfriends get together to try and come to terms with having been taught by a priest who is now exposed as a paedophile.

The most powerful of Mr Toibin's stories are those set in Ireland, the most intense his guilty couplings of gay men. This last is something new; the author has been reticent about writing explicit sex scenes in the past. Yet to see Mr Toibin as a gay Irish writer is to misjudge the complexities of his emotional range as a storyteller. These stories are sweet-and Mr Toibin's voice more assured with every new book he brings out.

New fiction

# Lions in winter

Jan 13th 2011 | from PRINT EDITION

**The many miseries that shape a marriage**

**Caribou Island.** By David Vann. *Harper; 304 pages; $25.99. Penguin; pound8.99.* Buy from Amazon.com, Amazon.co.uk

DAVID VANN'S first collection of short stories may have been brought out by a small university press and with a tiny print-run, but it cemented his reputation as a writer who could use the American landscape as a metaphor to tremendous effect. Published in 2008, "Legend of a Suicide" was immediately compared with the work of Wallace Stegner and Cormac McCarthy, earlier literary mythologists of the American frontier. "Sukkwan Island", the novella that makes up three-quarters of the book, won an array of literary awards on both sides of the Atlantic, including the French Prix Medicis Etranger, which in 40 years has only been won by eight other Americans, including Paul Auster and, before him, Philip Roth.

Mr Vann's new book and first novel, "Caribou Island", has thus been eagerly awaited. It does not disappoint.

Mr Vann returns to the Alaska of his upbringing, the unforgiving Kenai Peninsula, down the coast from where his own father killed himself, his stepmother's mother killed her husband and herself and the setting for "Sukkwan Island". As in "Legend of a Suicide", Gary, the hero of "Caribou Island", is trying to escape a lifetime of failures, with one epic new venture: building a log cabin, which barely keeps out the wind, with an outhouse and no running water, where he hopes to live year-round. With him is his wife, Irene. Haunted by a tragedy in her own past, fearful that if she doesn't help Gary he will leave her, she hauls logs out to Caribou Island in good weather and terrible storms, in sickness and in health, to patch up their marriage while building the kind of cabin that had brought them to Alaska in the first place. Before the first storm hits, the reader knows that it's not going to work.

Back on the mainland, Gary's and Irene's son, Mark, fishes occasionally for a living, but mostly he lies about smoking weed. Their daughter, Rhoda, by contrast, is a hard-working vet who cares for animals better than many of the characters care for their friends and families. Rhoda has moved in with Jim, the local dentist, and is dreaming of a beach wedding in Hawaii. Her perfect day, it turns out, is Jim's idea of a nightmare.

Mr Vann uses two sequences to transform what could be another routine tale of small-town life, hurling the book into the outer darkness of the heart. A casual encounter with a travelling trust-fund brat persuades Jim that, although Rhoda barely has the ring on her finger, what will give his life real meaning is years of sex with receptionists and dental nurses. He is 41 and feels the muffin tops a-piling up, so he buys a running machine and gives up drink and puddings. After his workout he eats a salad Rhoda has prepared for him. All he can do afterwards is crash. The marriage doesn't have a chance.

Meanwhile Rhoda's mother is doing back-breaking work on her husband's cabin. "His life was the given, beyond question. Hers was the accompaniment; it didn't really matter." Gary, thinking of Catullus, knows that "in her bride's heart revolves a maze of sorrow", but he says nothing. Desperate, Irene comes down with a terrible, and inexplicable, headache that leaves her shrunken and exhausted. Even the prescription painkillers Rhoda steals from the vet's practice do nothing to alleviate her suffering. As the marriage breaks down, Gary's ramshackle building begins also to disintegrate. Having been constructed in a self-pitying rage, there are gaps between the logs, untrue angles, a doorframe angrily nailed to the outside.

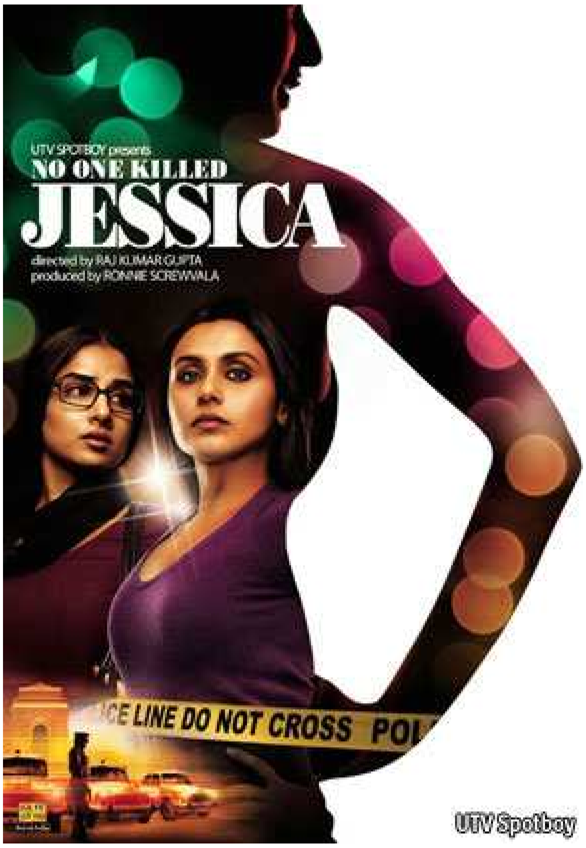
Mr Vann's brilliance as a writer lies in his willingness to expose everything-all the worst that Gary and Irene think of one another, those silent imaginings born of icy fury that can freeze a marriage to death. The novel's conclusion is desolate, and as inevitable as Rhoda's seemingly blind leap into her own doomed marriage. Though surprising when it appears, Mr Vann's ending is, on reflection, so obvious as to make the reader wonder why he never saw it coming. A writer to read and reread; a man to watch carefully.

Indian film

# Death in Delhi

Jan 13th 2011 | *DELHI* | from PRINT EDITION

**Indian film-makers are tackling difficult subjects with a light touch**




Shot of reality

JESSICA LALL, a model, was shot dead at a posh party in Delhi in 1999. Working as a bartender, she had refused to serve an obnoxious reveller at the end of the evening. Feeling snubbed, he pulled out a pistol, pointed it at her temple and pulled the trigger. Several partygoers saw the murder and dozens more watched as the killer fled. Once he was arrested, getting a conviction should have been easy, even in India's bent and overwhelmed courts. However, the accused, a son of a powerful politician of nearby Haryana state, was let off.

An energetic new film, "No One Killed Jessica", relates this true story. It follows Ms Lall's stubborn younger sister, Sabrina, as she tried to get justice done. Alone, she didn't have a chance. Acolytes of the accused's powerful family bribed and threatened witnesses. The police were paid off and evidence lost. The film's most compelling scene-and one most damning of India's semi-rotten legal institutions-shows witnesses in turn retracting their original testimony, saying that they could no longer remember the events, and letting a guilty man go free.

So far, so discouraging. But where Sabrina failed, India's fourth estate won out. The film's title is from a sarcastic newspaper headline at the time of the trial, commenting on the witnesses' suspicious amnesia. After the acquittal, journalists got those who had been on the stand to admit, in effect, to their perjury. They also helped to organise a candlelight protest at India Gate, the heart of New Delhi, where local citizens, Dilli-wallahs, demanded "justice for Jessica" and reform of India's legal system. Shamed by the attention, the courts at last in 2006 convicted Manu Sharma, the accused, and sentenced him to life in prison.

This is not a heartwarming tale. It took seven years and the combined heft of reporters, broadcasters, street protesters and the victims' relatives to get what should have been a simple conviction. Nor is India's legal system fixed. Witnesses

remain exposed, corruption is rife, the powerless routinely trodden on. Jessica was exceptional-sexy, young, Christian, educated, from a middle-class family-an investigative reporter's (or a film director's) dream victim. Delhi's newspapers are filled daily with stories of violent attacks on other, anonymous, women, many of whom struggle to see any sort of justice done. Beyond India's cities, women are more vulnerable still.

Yet "No One Killed Jessica", released in India earlier this month and due to be shown in Europe, America and elsewhere, avoids hectoring. In its best moments it evokes an electric Delhi-an edgy city bursting with ambitious people and new money-helped along by a thumping soundtrack. The young director, Raj Kumar Gupta, studies the dark side of booming, urbanising, India and, although he veers towards caricatures at times, he has a mostly light touch. Indian film-makers are making a habit of that: last year's "Peepli Live", an unlikely but successful satire on the grim theme of farmers' suicides, is India's submission for next month's Academy Awards.

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# Gene Smith

Jan 13th 2011 | from PRINT EDITION

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**Gene Smith, librarian and Tibetologist, died on December 16th, aged 74**


WHEN he visited the monastery of Menri, in the foothills of the Himalayas, in 2008, Gene Smith took a tiny gift for the abbot. He told him to wear it as an amulet round his neck, to ensure that all was well. Menri Trizan sports it today with his crimson robes: a memory stick, containing hundreds of pages of Buddhist scriptures.

At other monasteries, up and down the remote hillsides and the steep valleys, Mr Smith made a present of portable hard drives. A bulky, jacketed figure among the swarms of shaven heads, making an untidy *namaste* with his chunky Western fingers, he handed over devices, no bigger than the palm of a hand, which contained 10,000 books. Where for centuries monks lifted their *pecha* texts from decorated bookshelves and read the loose leaves across their knees, they now stare into laptops, contemplating the works Mr Smith has scanned for them.

Some might sigh over the intrusion of the modern world. Not Mr Smith. He first went to India, a student seeking rare Tibetan books, not many years after Tibet's uprising against the Chinese occupiers in 1959, when the country's monasteries-in effect, its libraries-were ransacked and destroyed. Not only books were burned, but also the carved wooden blocks from which they were printed. Fleeing Tibetans tried to save the texts, the repositories of 1,500 years of thought and prayer, by trussing them on yaks, but the loads often fell into rivers and ravines. They strapped books on their own backs; but when they arrived in exile the corpus was scattered and damaged, and much of it lost.

Over five decades, Mr Smith made it his business to put Tibetan literature back together. He did it more or less single-handedly, fired by his love of the language and the culture and aided by a brain that rapidly became an encyclopedia of lineages, sutras, lives of lamas, and the history and ownership of every book he came across. Expatiating in serene but fearsome detail to friends in his rooms in Delhi, or Boston, or New York, all of them piled floor-to-ceiling with cloth-wrapped *pecha*, he could instantly find a page anywhere to illustrate a point. Though people considered him a teacher, he was always a librarian, with a librarian's love of catalogues and connections; but his Buddhism added to that a reverence for the transmission of texts, on which all spiritual progress rested.

He found two ways to save the books, both ingenious. First, for 20 years, he used a food-aid programme called Public Law 480, under which America sold surplus wheat to third-world countries and then used the local-currency payments for humanitarian ventures. Mr Smith, working after 1968 as a field officer in India for the Library of Congress, reckoned his mandate under PL480 extended to buying books. Armed only with fistfuls of rupees and with letters of introduction from his Tibetan teacher, Deshung Rinpoche, to various lamas, he trawled through Indian libraries and then travelled into the hills. There, though still fearful of exposing their treasures, exiled Tibetan monks showed him the texts they had; and, with the money he gave them, printed more. In the end the PL480 programme saved 8,000 books, each of which was printed in 20 or so copies for American centres of research.

Yet all this depended on Mr Smith's encyclopedic knowledge to find, assess and edit the books; and, as time went on, digital technology proved even more efficient. In 1999 Mr Smith set up the Tibetan Buddhist Resource Centre, first in Boston and then in New York, and set about putting his 12,000-volume collection, the largest anywhere, online. By his death he and his team had scanned 7m pages of text and had made CDs of files, such as the 110-volume *kangyur*, or teachings of the Buddha, which were too huge to download. As for the books themselves, he left them to a university in China: the place where, despite everything, he felt Tibetan Buddhism would eventually flourish again.

Did he ever suppose, he was asked once, that he would spend most of his life immersed in Buddhist *dharma*? He replied, "Sure." It was by no means so sure when he was born, in Ogden, Utah, into a Mormon family distantly linked to Joseph Smith, the founder. His connection with Utah soon faded, however, as he studied Sanskrit and Tibetan and became a Buddhist under Deshung Rinpoche's influence. Though he was never a monk, there was a monkish look about him: the balding head, the frank, kindly eyes, the life spent in rigorous discipline among ancient texts. Friends noticed, too, his fascination with *terma*, tiny texts in shell-like casings that were buried and dug up again to speak wisdom to later generations, and drew joking parallels with Joseph Smith's discovery of the Mormon golden tablets.

**The porcelain cup**

Amid the extraordinary complexity of his chosen subject, Mr Smith kept a childlike simplicity. He did not talk about himself or what he believed in, save books. He was sceptical of the reincarnation-claims of some of the lamas and tulkus he met. But he was deeply moved when he gave one child lama a precious porcelain cup that had been used by Deshung Rinpoche, and found that the child recognised it as his own. In such small things he placed his faith; as in a memory stick, worn round the neck, preserving everything.